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Carolina, C[illegible]chfield & Ohio Railway

$22,150,000

Carolina, Clinchfield and Ohio Railway

FIRST MORTGAGE 4% BONDS, SERIES A

Principal, Interest and Sinking Fund Payments Unconditionally Guaranteed, by Endorsement, Jointly and Severally by ATLANTIC COAST LINE RAILROAD COMPANY and LOUISVILLE AND NASHVILLE RAILROAD COMPANY, Lessees.

Dated September 1, 1940 *Due September 1, 1965*

Interest payable March 1 and September 1

Semi-annual noncumulative sinking fund of $110,750 to be applied to the purchase or redemption of these Bonds.

Redeemable at the option of the Railway, as a whole or in part, on any interest date upon 45 days' notice at the following prices and accrued interest: to and including September 1, 1945, at 107½%; thereafter to and including September 1, 1950, at 106%; thereafter to and including September 1, 1955, at 104½%; thereafter to and including September 1, 1960, at 103%; thereafter to and including September 1, 1963, at 101½%; and thereafter at any time upon 45 days' notice at 100%.

The issuance, guaranty and sale of these Bonds are subject to authorization by the Interstate Commerce Commission.

In the opinion of counsel these Bonds upon issuance will be legal investment for Savings Banks in the States of New York, New Hampshire and California.

The Railway and the Lessees have summarized as follows their letter dated August 22, 1940, describing this issue. The entire letter with Exhibits should be read prior to any purchase of these Bonds.

THE RAILWAY *The Coast Line and the L. & N. jointly and severally lease all the property of the Railway and its wholly owned railroad subsidiary. The Railway and this subsidiary own 283 miles of railroad. The lines extend from Elkhorn City, Ky., to Spartanburg, S. C., and are separately operated under the name "Clinchfield Railroad Company" (unincorporated Lessee Organization) by the Lessees. The Railway's lines form a direct trans-mountain route connecting the Central West and the Ohio Valley with the Piedmont section of the Carolinas and with the Southeast, serving Kentucky and Virginia coal fields. During 1939, coal and coke provided about 52% of the freight revenues and about 66% of the revenue freight tonnage of the Clinchfield Railroad Company.*

EARNINGS *The following summary has been prepared from the Condensed Statement of Income (Exhibit E) of the Clinchfield Railroad Company and is subject to the notes forming an integral part of that statement.*

	Years Ended December 31,	Railway Operating Revenues	Railway Operating Expenses	Operating Ratio	Net Railway Operating Income	Income Available for Fixed Charges
	1930	$6,015,814	$3,998,345	66.46%	$2,138,821	$2,300,401
	1931	5,410,060	3,530,509	65.26	1,621,378	1,693,842
	1932	4,058,976	2,670,470	65.79	1,026,720	1,060,039
	1933	4,842,179	2,680,682	55.36	1,894,874	1,913,093
	1934	5,204,314	2,998,826	57.62	2,043,294	2,058,346
	1935	5,314,958	3,087,169	58.08	2,047,003	2,058,999
	1936	6,324,863	3,500,532	55.35	2,575,949	2,587,908
	1937	6,880,009	3,638,982	52.89	3,207,138	3,227,518
	1938	5,900,718	3,273,385	55.47	2,237,387	2,261,432
	1939	7,276,464	3,509,476	48.23	3,286,120	3,295,577
Six Months Ended June 30,	1939	3,300,198	1,703,219	51.61	1,385,066	1,392,313
	1940	4,423,548	2,004,894	45.32	2,097,996	2,103,896

Annual interest charges on the $22,150,000 new Bonds amount to $886,000. Fixed charges on Clinchfield Railroad 2¼% Equipment Trust Certificates will amount to $37,958 during 1940.

PURPOSE OF ISSUE *The net proceeds to be received by the Railway from the sale of the Bonds ($22,260,750 exclusive of accrued interest), together with funds to be provided by the Lessees to the extent required, will be used: (1) to retire on or before December 15, 1940, $8,000,000 First and Consolidated Mortgage 6% Bonds, Series A, due December 15, 1952 and (2) to pay not later than January 15, 1941, a $14,150,000 5% Promissory Note (current rate 3%), due May 27, 1943, and in connection therewith to retire a like principal amount of the First and Consolidated Mortgage 5% Bonds, Series B, due April 1, 1956, now pledged as collateral for the Note.*

SECURITY *Upon release of the First and Consolidated Mortgage, to be obtained on delivery of these Bonds, the Mortgage under which the Bonds are to be issued, in the opinion of the Railway's counsel, will be a first lien on 265 miles of railroad now owned in fee by the Railway, and a collateral first lien on the 18 miles of railroad of its railroad subsidiary. The lien will also attach to all physical property now owned by the Railway appurtenant to or used as a part of any of its lines of railroad and to equipment title to which is now vested in the Railway. Additional bonds may be issued in series ranking pari passu with the Series A Bonds but not more than $50,000,000 of bonds may be outstanding at any one time under the Mortgage. The lien of the Mortgage, sinking fund provisions and, with certain exceptions, other provisions thereof may be modified by vote of holders of 66⅔% of outstanding bonds affected.*

PURCHASE *Subject to certain terms and conditions, the Railway and the Lessees (as to the sale, acting for and on behalf of the Railway) have agreed to sell to Morgan Stanley & Co. Incorporated and the latter has agreed to purchase the Bonds at 100½% plus accrued interest to the date of delivery. Forty-five investment banking houses have agreed severally with Morgan Stanley & Co. Incorporated to sub-underwrite $18,650,000 principal amount of Bonds.*

PRICE 102½% AND ACCRUED INTEREST

These Bonds are offered subject to prior sale when, as and if issued and accepted by Morgan Stanley & Co. Incorporated, and subject to the approval of Messrs. Davis Polk Wardwell Gardiner & Reed of (a) all legal proceedings in connection with their issuance, guaranty and sale, and (b) the order or orders of the Interstate Commerce Commission authorizing their issuance, guaranty and sale; and subject further to the condition that such order or orders shall have taken effect on or prior to October 5, 1940. It is expected that delivery of Bonds in temporary form will be made at the office of J. P. Morgan & Co. Incorporated against payment therefor in New York funds.

In order to facilitate the distribution of the Bonds by attempting to stabilize the price thereof, Morgan Stanley & Co. Incorporated reserves the right to purchase and sell Bonds, in the open market or otherwise, for either long or short account. This statement is not an assurance that the price of the Bonds will be stabilized, or that the stabilizing, if commenced, may not be discontinued at any time. (See page 18.)

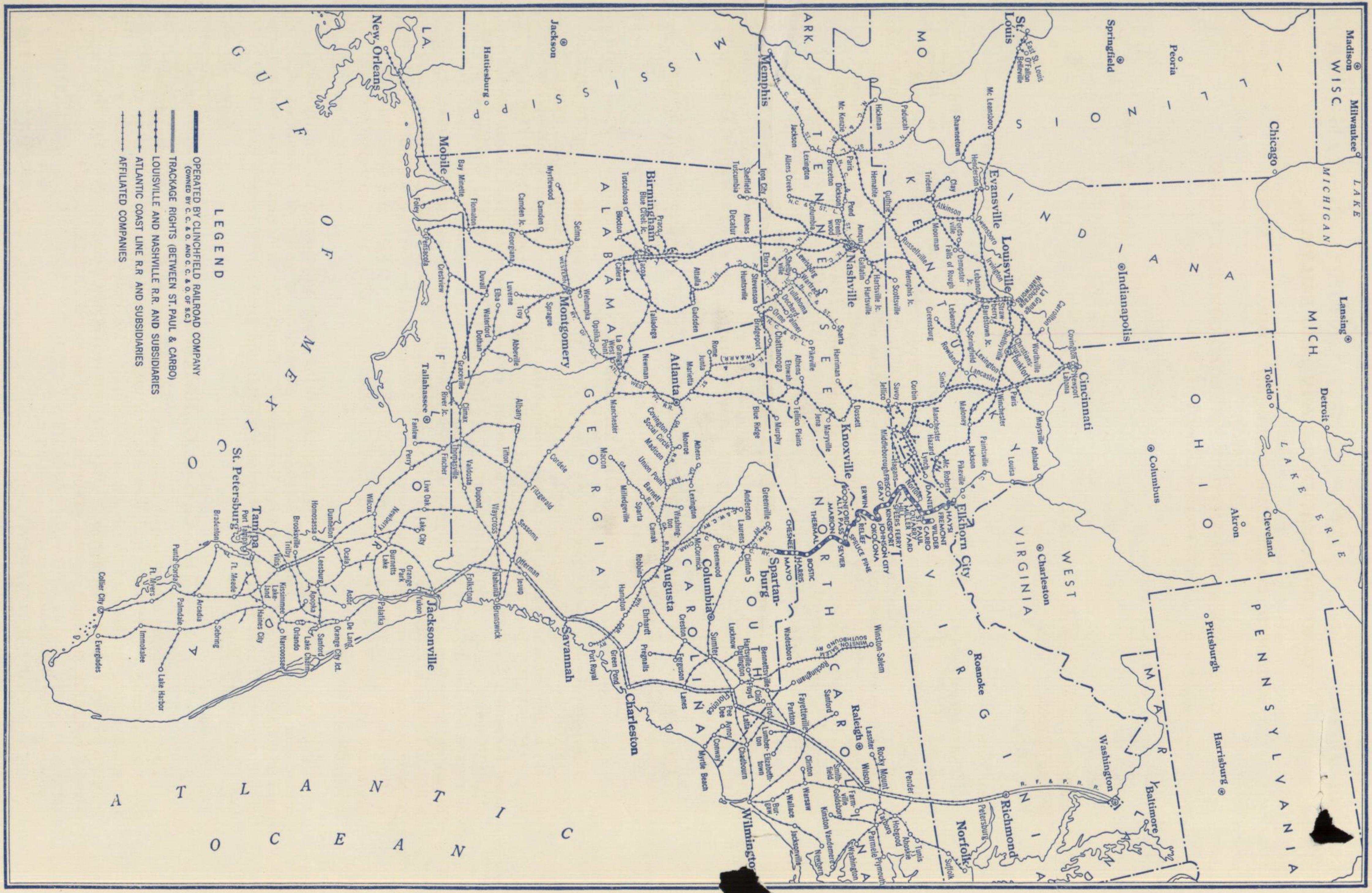
MORGAN STANLEY & CO.
Incorporated

HARRIMAN RIPLEY & CO. *Incorporated* **SMITH, BARNEY & CO.** **THE FIRST BOSTON CORPORATION**

BLAIR & CO., INC. **MELLON SECURITIES CORPORATION** **DREXEL & CO.**

W. E. HUTTON & CO. **J. J. B. HILLIARD & SON** **EQUITABLE SECURITIES CORPORATION**

August 23, 1940.


LEGEND
OPERATED BY CLINCHFIELD RAILROAD COMPANY (OWNED BY C. C. & O. AND C. C. & O. OF S.C.)
TRACKAGE RIGHTS (BETWEEN ST. PAUL & CARBO)
LOUISVILLE AND NASHVILLE R.R. AND SUBSIDIARIES
ATLANTIC COAST LINE R.R AND SUBSIDIARIES
AFFILIATED COMPANIES
GULF OF MEXICO
ATLANTIC OCEAN
LAKE MICHIGAN
LAKE ERIE
WISC.
MICH.
ILLINOIS
INDIANA
OHIO
PENNSYLVANIA
MO
ARK.
LA.
KENTUCKY
WEST VIRGINIA
VIRGINIA
MARYLAND
TENNESSEE
NORTH CAROLINA
SOUTH CAROLINA
MISSISSIPPI
ALABAMA
GEORGIA
FLORIDA
Madison
Milwaukee
Chicago
Lansing
Detroit
Toledo
Cleveland
Akron
Pittsburgh
Harrisburg
Baltimore
Washington
Springfield
Peoria
Indianapolis
Columbus
Cincinnati
Charleston
St. Louis
Evansville
Louisville
Nashville
Memphis
Knoxville
Chattanooga
Atlanta
Birmingham
Montgomery
Mobile
New Orleans
Jackson
Hattiesburg
Tallahassee
Jacksonville
Tampa
St. Petersburg
Savannah
Charleston
Augusta
Columbia
Spartanburg
Wilmington
Raleigh
Roanoke
Richmond
Norfolk
Elkhorn City
R. F. & P. R. R.

CAROLINA, CLINCHFIELD AND OHIO RAILWAY
and
ATLANTIC COAST LINE RAILROAD COMPANY, LESSEE
and
LOUISVILLE AND NASHVILLE RAILROAD COMPANY, LESSEE
71 Broadway, New York, N. Y.

August 22, 1940.

Morgan Stanley & Co. Incorporated,
2 Wall Street,
New York, N. Y.

Dear Sirs:

The undersigned, Carolina, Clinchfield and Ohio Railway (hereinafter sometimes called the "C. C. & O") and the Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company (hereinafter sometimes called the "Coast Line" and "L. & N.", respectively, or collectively the "Lessees"), furnish the following information for use in connection with the sale and distribution of $22,150,000 principal amount of Carolina, Clinchfield and Ohio Railway First Mortgage 4% Bonds, Series A, (hereinafter sometimes called the "Bonds"), dated September 1, 1940, due September 1, 1965, guaranteed as to principal, interest and sinking fund payments, jointly and severally, by agreement and by endorsement by the Coast Line and the L. & N., purchased by you.

The following information as to the C. C. & O., the Coast Line and the L. & N. is furnished respectively by each such corporation as to itself alone. The following information as to Clinchfield Railroad Company (unincorporated Lessee Organization) is furnished jointly by the Coast Line and the L. & N.

The issue and sale of the Bonds and the joint and several guaranty thereof by the Lessees are subject to authorization by the Interstate Commerce Commission.

PURPOSE OF ISSUE

The net proceeds to be received by the C. C. & O. from the sale of the Bonds ($22,260,750 exclusive of accrued interest), together with funds to be provided by the Lessees to the extent required, will be deposited with The Chase National Bank of the City of New York, Trustee under the First and Consolidated Mortgage of the C. C. & O., dated December 15, 1922, in trust: (1) to retire on or before December 15, 1940, at 106% of the principal amount thereof and accrued interest, $8,000,000 First and Consolidated Mortgage 6% Bonds, Series A, dated December 15, 1922, due December 15, 1952 and (2) to pay not later than January 15, 1941, at the face amount thereof and accrued interest, a $14,150,000 5% Promissory Note (current rate 3%), due May 27, 1943, guaranteed as to principal and interest jointly and severally by endorsement by the Lessees, and in connection therewith to retire a like principal amount of C. C. & O. First and Consolidated Mortgage 5% Bonds, Series B, dated April 1, 1926, due April 1, 1956, now pledged as collateral for the Note.

Upon such deposit, and upon arrangements being made satisfactory to the trustee under said First and Consolidated Mortgage for publication of notice of redemption of said $8,000,000 First and Consolidated Mortgage 6% Bonds, Series A, and for due notice of prepayment of said $14,150,000 Promissory Note, said trustee will release said First and Consolidated Mortgage.

THE C. C. & O. RAILWAY

The C. C. & O. was incorporated on January 26, 1905, under the general laws of the State of Virginia, as the South and Western Railroad Company. The C. C. & O. is also organized under the laws of the State of Kentucky. Its present corporate title was adopted March 7, 1908. On March 26, 1940 the properties of Clinchfield Northern Railway of Kentucky, a wholly owned subsidiary, were conveyed to the C. C. & O.

The C. C. & O. and its wholly owned railroad subsidiary, Carolina, Clinchfield and Ohio Railway of South Carolina, own 283 miles of railroad and have certain trackage and operating rights over 25 additional miles of railroad. These 308 miles of road are separately operated under the name "Clinchfield Railroad Company" (unincorporated Lessee Organization) by the Coast Line and the L. & N., as joint and several Lessees.

LEASE

By indenture dated October 16, 1924, the Coast Line and the L. & N. jointly and severally leased from the C. C. & O. and its wholly owned railroad subsidiary, all the railroad, including trackage rights, extending from Elkhorn City, Ky., to Spartanburg, S. C., and branch lines therefrom, together with all other property used in connection therewith, all fixtures, rolling stock and appurtenances, certain contract rights, and certain securities, subject in part to certain liens as set forth in the Lease, for 999 years from May 11, 1923, at an annual rental of: $750,000 per annum from January 1, 1925, to December 31, 1927; $1,000,000 per annum from January 1, 1928, to December 31, 1937; $1,250,000 per annum from January 1, 1938, to May 10, 2922; not exceeding $12,000 per annum for corporate expenses, payable in each year during the term of the Lease and payment of all installments of interest on outstanding bonds or other obligations of the C. C. & O. The Lessees also agreed to pay maturing interest on extended, renewed or refunded bonds and other obligations and on any additional bonds or other obligations issued, and amounts to cover such dividends, if any, as may be specified by the Lessees on any additional class of stock issued; also all taxes, including those on the Lessors' income from rental of property leased.

The Lease requires that, upon the termination thereof, the Lessees shall surrender to the Lessors (1) the leased property in good order and condition, ordinary wear and tear excepted, with such additions and improvements as shall have been made thereto, free of all liens except those created by the Lessors prior to the date of the Lease or subsequent thereto pursuant to the provisions thereof, (2) the unexpended balance of moneys paid over to the Lessees at the time of the Lease or accumulated by the Lessees from the sale of leased property, (3) all leased securities or the proceeds thereof; upon condition that the Lessors make payment to the Lessees of the (a) fair value of any additions and improvements and (b) amounts expended by the Lessees in payment of principal of obligations of the Lessors, as to either of which the Lessees shall be entitled to reimbursement under the terms of the Lease, and (c) the amount remaining unexpended of moneys paid by the Lessees into any sinking fund of the character described in Article Twentieth of the Lease. Payments under (a) and (b) above may be made by the Lessors in securities as provided in the Lease, but payment under (c) above must be in cash.

PROPERTY

The lines of railroad of the C. C. & O. and its wholly owned railroad subsidiary, operated at July 31, 1940 by the Clinchfield Railroad Company, shown on the map facing page 3, extend from Elkhorn City, Ky., to Spartanburg, S. C., the portion located in South Carolina (18.09 miles) being owned by the Carolina, Clinchfield and Ohio Railway of South Carolina. The C. C. & O. also has trackage rights over the road of the Norfolk and Western Railway Company from St. Paul, Va., to Carbo, Va. (8.45 miles); the Southern Railway Company from Frisco, Tenn., to Albert Yard, Va. (13.60 miles); and The Chesapeake and Ohio Railway Company at Elkhorn City, Ky. (.13 miles); which trackage rights are included in the leased property.

The above-mentioned lines are located in Kentucky, Virginia, Tennessee, North Carolina and South Carolina and serve important bituminous coal fields in Kentucky and Virginia. Prior to December 1, 1935, connection was made between the C. C. & O. and the L. & N. at Miller Yard, Va., under trackage rights held by the L. & N. over approximately 17 miles of road of the Interstate Railroad Company from Norton, Va., to Miller Yard, Va. Effective December 1, 1935, these trackage rights were terminated under a contract dated June 5, 1935, amended October 16, 1935, between the L. & N. and the Interstate Railroad Company, whereby the latter agrees to act as an intermediate carrier between the lines of the L. & N. and those of the C. C. & O. At Spartanburg, S. C., the southern terminus of the lines, connection is made with the Charleston & Western Carolina Railway, all of the capital stock of which is owned by The Atlantic Coast Line Company which also owns approximately 27% of the voting stock of the Coast Line.

Main line tracks of the C. C. & O. and its subsidiary are laid with 100 pound rail on white oak ties or tie plated treated ties. With the exception of a few miles, the entire line is ballasted with crushed stone. About 60% of the tunnel mileage is lined with concrete, the remainder being cut through solid rock.

The crossing of the divides and tortuous valleys involved large amounts of heavy fills, cuts and grading and the building of approximately 9.7 miles of tunnels. The resulting ruling grade southbound, the direction of the heaviest traffic movement, is about 0.50% except for a few short stretches where the maximum is 1.50%. Northbound, the ruling grade is about 0.50% except for a few short stretches where the maximum is 1.20%.

The C. C. & O. owns 78 locomotives, 24 passenger train cars and 2,325 freight train cars and 43 units of other equipment. In addition the Coast Line and the L. & N. lease 1,096 freight train cars under the terms of an equipment trust issue, which cars are used by the Clinchfield Railroad Company in operation of the leased lines of the C. C. & O., the C. C. & O. having no right, title or interest in this equipment. The Coast Line and the L. & N. will agree with the C. C. & O. and the trustee under said equipment trust that title to said equipment shall be vested in the C. C. & O. upon the expiration of said equipment trust.

The locomotive and car equipment now in use is adequate for the needs of the service. On June 30, 1940, 21 locomotives and less than 4% of the freight train cars were in the shop or waiting repairs.

The Clinchfield Railroad Company does not now contemplate any major addition and betterment projects.

BUSINESS

The lines of the C. C. & O. form a direct trans-mountain bridge route connecting the Central West and Ohio Valley with the Piedmont section of the Carolinas and with the Southeast and serve the bituminous coal fields of Kentucky and Virginia which are tributary to its lines and to certain lines of the L. & N., The Chesapeake and Ohio Railway Company, the Norfolk and Western Railway Company, the Southern Railway Company and the Interstate Railroad Company. The lines of the C. C. & O. also directly serve industrial and other developments which consume a large tonnage of the coal terminated on the lines of the C. C. & O.

Coal from mines in operation along the lines of the C. C. & O., together with a substantial tonnage received from other carriers, including coal originated on the L. & N., is carried south across the mountains and delivered to connecting carriers for distribution throughout the Southeastern Atlantic States, particularly the Piedmont section of the Carolinas. It is estimated that a large part of the coal traffic received from connections at the north end for delivery to southern connections moves from mines that could not economically reach certain southeastern markets except over the C. C. & O. and therefore is not competitive freight in the ordinary sense. A large part of the coal delivered to southern connecting carriers is used by them and their connections. Some of the coal from mines along the lines of the C. C. & O. is moved to connections at the north end of the C. C. & O. for ultimate delivery at points north of the Ohio River, principally to Toledo as lake cargo coal.

Of the total revenue coal tonnage carried during 1939, 2,093,825 tons (54.84%) were originated on the lines of the C. C. & O., and 1,723,952 tons (45.16%) were received from connections serving the Eastern Kentucky-Virginia-East Tennessee fields, as follows:

Connection	Revenue Tonnage	% of Total Revenue Coal Tonnage
L. & N.*	585,617	15.34
Interstate Railroad**	518,215	13.58
Norfolk and Western Railway	252,013	6.60
The Chesapeake and Ohio Railway	324,644	8.50
Other Railroads	43,463	1.14
Total	1,723,952	45.16%

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* Originated on L. & N. but delivered to Clinchfield Railroad Company by Interstate Railroad.

** Originated by Interstate Railroad or its connections other than L. & N. and delivered to Clinchfield Railroad Company by Interstate Railroad.

Of the total revenue coal tonnage carried during 1939, 3,274,367 tons (85.77%) were delivered to connections, as follows:

Connection	Revenue Tonnage	% of Total Revenue Coal Tonnage
Charleston & Western Carolina Railway	900,120	23.58
Southern Railway	762,642	19.97
Seaboard Air Line Railway	713,121	18.68
The Chesapeake and Ohio Railway	291,901	7.65
Piedmont and Northern Railway	247,439	6.48
Other Railroads	359,144	9.41
Total	3,274,367	85.77%

Mr. W. D. Tyler, Vice-President of the Clinchfield Coal Corporation which is one of the largest operators of coal lands tributary to the C. C. & O. lines, has informed the Clinchfield Railroad Company, under date of August 12, 1940, that proven unmined coal in known coal areas of Russell, Dickenson, Buchanan and Wise Counties, Virginia (all tributary to the C. C. & O. lines) is estimated at approximately 540,000,000 tons. The estimate is based to a great extent on thirty-four years' investigation of the various seams by outcrop prospecting and sinking diamond drill holes. During the five years ended December 31, 1939 an average of 2,033,646 tons was mined annually from these fields.

The classification of the freight traffic carried by the Clinchfield Railroad Company in 1939 and the revenue therefrom were as follows:

	Revenue Freight Tonnage	Gross Freight Revenue*	Percent of Total	
			Revenue Freight Tonnage	Freight Revenue
Products of Agriculture	223,338	$ 514,398	3.88	6.95
Animals and Products	15,572	49,964	.27	.68
Products of Mines:				
Coal and Coke	3,825,377	3,824,554	66.42	51.69
Other Products of Mines	507,780	420,338	8.82	5.68
Products of Forests	330,705	419,788	5.74	5.67
Manufactures and Miscellaneous	804,789	1,874,118	13.98	25.33
All L. C. L. Freight	51,431	295,650	.89	4.00
Total	5,758,992	$7,398,810	100.00	100.00

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* Before deducting claims, switching charges, etc.

For comparative purposes the freight tonnage and freight revenue since 1929 are shown below:

	Revenue Freight Tonnage			Revenue		
Years Ended December 31,	Coal and Coke	Other Freight	Total Freight	Coal and Coke	Other Freight	Total Freight
1930	2,773,104	1,792,780	4,565,884	$2,852,438	$2,931,413	$5,783,851
1931	2,776,176	1,441,633	4,217,809	2,750,749	2,496,811	5,247,560
1932	2,169,169	902,681	3,071,850	2,182,328	1,791,657	3,973,985
1933	2,667,781	1,130,306	3,798,087	2,619,923	2,141,701	4,761,624
1934	2,966,106	1,331,585	4,297,691	2,774,357	2,327,977	5,102,334
1935	2,882,872	1,366,665	4,249,537	2,732,313	2,473,417	5,205,730
1936	3,296,109	1,745,476	5,041,585	3,160,705	3,043,748	6,204,453
1937	3,835,051	1,987,151	5,822,202	3,534,210	3,217,495	6,751,705
1938	3,166,613	1,642,375	4,808,988	3,036,603	2,754,149	5,790,752
1939	3,825,377	1,933,615	5,758,992	3,795,045	3,373,349	7,168,394
Six Months Ended June 30,						
1939	1,673,135	900,286	2,573,421	1,633,630	1,615,444	3,249,074
1940	2,395,318	1,049,405	3,444,723	2,582,988	1,786,321	4,369,309

Of the total revenue freight tonnage carried over the lines of the C. C. & O. during 1939, 48.91% was originated and the balance was received from connections. The revenue tonnage terminating on the lines of the C. C. & O. during 1939 amounted to 21.10% of the total revenue tonnage carried.

Manufacturing plants along the lines of the C. C. & O. provide a substantial portion of the merchandise traffic of, and consume a large tonnage of coal terminated by, the

Clinchfield Railroad Company. The outstanding industrial developments on the lines of the C. C. & O. center about Kingsport, Johnson City and Erwin, Tenn. At Kingsport, Tenn., the Tennessee Eastman Corporation, a subsidiary of Eastman Kodak Company, has a cellulose acetate plant and has recently completed a plant for the manufacture of rayon. The Duke Power Company has recently constructed a steam power plant near Brice, N. C., which is supplied with coal carried by the Clinchfield Railroad Company.

In connection with the coal revenues attention is called to a complaint of Pocahontas Operators Association, et al., filed with the Interstate Commerce Commission October 9, 1939, against Norfolk and Western Railway Company, et al., Docket No. 28345, alleging that coal rates from mines in the Pocahontas, Tug River, Upper Buchanan and Clinch Valley No. 1 districts in the so-called group 3 mines on the Norfolk and Western Railway to destinations on the C. C. & O. between Quarry, Va., and Spartanburg, S. C., via St. Paul, Va., are unreasonably high and unduly prejudicial. Hearings have been held before an examiner of the Interstate Commerce Commission and briefs have been filed by the various interested parties. In his proposed report, the examiner found that the rates assailed were and will be unreasonable to the extent that they exceed or may exceed the rates at present maintained on coal from the Harlan and Big Sandy-Elkhorn groups to the same destinations. Compliance with the examiner's findings will result in reductions in the rates from said group 3 mines, and will place those mines on a rate parity with the Harlan and Big Sandy-Elkhorn districts. Exceptions to the proposed report have been filed by the defending railroads, but the Commission has not as yet decided the case. No attempt is made in this letter to forecast its decision, nor the effect its decision may have upon the tonnage of coal moving over the lines of the C. C. & O., or upon its coal revenue. Furthermore, it is impossible to foretell what effect a change in the rates involved in this case would have on the general rate structure of coal moving to the Carolinas, or the volume of coal traffic moving over competing railroads.

Revenue from passenger traffic is negligible.

FINANCIAL STATEMENTS

There are appended hereto, as exhibits, General Balance Sheets as of December 31, 1939, Condensed Statements of Income for each of the ten calendar years 1930 to 1939, inclusive, and Statements of Profit and Loss for the same periods, of the C. C. & O., the Clinchfield Railroad Company, the Coast Line and the L. & N. The statements of the Clinchfield Railroad Company, the Coast Line and the L. & N. have been certified by Messrs. Haskins & Sells, Certified Public Accountants. The statements of the C. C. & O. have been verified by Mr. T. J. Cunningham, Secretary & Treasurer of the C. C. & O. There are also shown in the above-mentioned Condensed Statements of Income (Exhibits B, E, H, and K) the results of operations for the six months ended June 30, 1939 and 1940 which are unaudited and subject to year-end adjustments. The above statements were prepared by officers of the railroads as follows: for the C. C. & O., by Mr. T. J. Cunningham, Secretary & Treasurer; for the Clinchfield Railroad Company, by Mr. Chas. Hewett, General Auditor; for the Coast Line, by Mr. W. D. McCaig, Comptroller; and for the L. & N., by Mr. A. J. Pharr, Comptroller.

CAPITALIZATION OF THE C. C. & O.

Upon the retirement of $8,000,000 First and Consolidated Mortgage 6% Bonds, Series A, due December 15, 1952 and of the $14,150,000 5% Promissory Note (current rate 3%), due May 27, 1943, including cancellation of the $14,150,000 of the First and Consolidated Mortgage 5% Bonds, Series B, held as collateral for such Note, and upon the issuance and sale of the new Bonds, the capitalization of the C. C. & O. will be as follows:

First Mortgage 4% Bonds, Series A, due September 1, 1965	$22,150,000
Capital Stock (par value $100 per share)	25,000,000

The Clinchfield Railroad Company carried on its books, as of December 31, 1939, as a liability, $1,573,000 Clinchfield Railroad 2¼% Equipment Trust Certificates, dated March 1, 1937, due $121,000 on March 1 of each year from 1940 to 1952, inclusive, which certificates are the joint and several obligation of the Lessees and are not an obligation of the C. C. & O.

EARNINGS

The following figures with respect to the operation of the leased properties, as reported by the Lessees, have been prepared from the Condensed Statement of Income (Exhibit E) of the Clinchfield Railroad Company and are subject to the notes forming an integral part of that Statement.

Years Ended December 31,	Total Railway Operating Revenues	Total Railway Operating Expenses	Operating Ratio	Net Railway Operating Income	Income Available for Fixed Charges
1930	$6,015,814	$3,998,345	66.46%	$2,138,821	$2,300,401
1931	5,410,060	3,530,509	65.26%	1,621,378	1,693,842
1932	4,058,976	2,670,470	65.79%	1,026,720	1,060,039
1933	4,842,179	2,680,682	55.36%	1,894,874	1,913,093
1934	5,204,314	2,998,826	57.62%	2,043,294	2,058,346
1935	5,314,958	3,087,169	58.08%	2,047,003	2,058,999
1936	6,324,863	3,500,532	55.35%	2,575,949	2,587,908
1937	6,880,009	3,638,982	52.89%	3,207,138	3,227,518
1938	5,900,718	3,273,385	55.47%	2,237,387	2,261,432
1939	7,276,464	3,509,476	48.23%	3,286,120	3,295,577
Six Months Ended June 30,					
1939	3,300,198	1,703,219	51.61%	1,385,066	1,392,313
1940	4,423,548	2,004,894	45.32%	2,097,996	2,103,896

Interest charges for 12 months on the $22,150,000 principal amount of Bonds to be outstanding upon the retirement of the present outstanding funded debt of the C. C. & O., will amount to $886,000. The Lessees are liable for dividends and amortization of discount on Clinchfield Railroad 2¼% Equipment Trust Certificates, which will amount to $33,124 and to approximately $4,834 respectively in 1940.

In addition to paying the above fixed charges, the Lessees, through the Clinchfield Railroad Company, make the following further payments to or for the C. C. & O: (1) an amount of $1,250,000, equivalent to 5% on 250,000 shares of Capital Stock (par value $100 per share); (2) Lessors' income taxes (approximately $240,000 in respect of 1939 income); (3) maintenance of corporate organization, $12,000; and (4) certain miscellaneous payments (approximately $5,400 in 1939). The C. C. & O. has no income other than payments under the Lease.

The profit or loss from operation of the leased properties by the Clinchfield Railroad Company is cleared to the Coast Line and the L. & N. in equal amounts in compliance with a ruling of the Interstate Commerce Commission and is shown in the respective Condensed Statements of Income of the Coast Line and the L. & N. under the captions "Separately Operated Properties (Clinchfield R. R. Co.)—Profit" and "Separately Operated Properties—Loss" and in the notes appended to such Statements.

FIRST MORTGAGE BONDS

The Bonds will be dated September 1, 1940, will mature September 1, 1965, and will bear interest at the rate of 4% per annum from September 1, 1940, payable semi-annually on March 1 and September 1 in each year. The principal of and interest on the Bonds will be payable at the office or agency of the C. C. & O. in the City of New York, in such coin or currency of the United States of America as at the time of payment shall be legal tender for public and private debts. The Bonds of Series A will be limited to $22,150,000 aggregate principal amount except for Bonds issued in lieu of lost or destroyed Bonds. The Bonds will be issued under and secured in accordance with the terms of a new First Mortgage of the C. C. & O., dated as of September 1, 1940, to J. P. Morgan & Co. Incorporated, New York, N. Y., as Trustee (herein called the "Trustee") and an Indenture Supplemental thereto dated as of September 1, 1940 (the First Mortgage and the Supplemental Indenture sometimes herein together called the "Mortgage"). Copies of the Mortgage may be inspected upon request at the office of the Trustee, and reference is made to said Mortgage for a description of the nature and extent of the security and the rights of the C. C. & O. and of the bondholders thereunder.

The Bonds will be issued in temporary form in the denomination of $1,000 exchangeable for definitive Bonds when ready for delivery. The coupon Bonds in definitive form will be in the denomination of $1,000 registerable as to principal. Fully registered Bonds, when prepared in definitive form, will be in denominations of $1,000, $5,000, $10,000 and $100,000 and authorized multiples of $100,000. Coupon and fully registered Bonds in definitive form and the several denominations of fully registered Bonds in definitive form will be interchangeable in equal aggregate principal amounts upon payment of charges provided in the Mortgage.

The C. C. & O. will make application for the listing of the Bonds on the New York Stock Exchange and for their registration under the Securities Exchange Act of 1934.

In the opinion of counsel the Bonds, upon issuance, will be legal investment for Savings Banks in the States of New York, New Hampshire and California.

Redemption

The Bonds will be redeemable at the option of the C. C. & O., as a whole or in part, on any interest payment date to and including September 1, 1963, and on any date thereafter, upon at least 45 days' prior published notice, with accrued interest to the date set for redemption, as provided in the Mortgage, at the following prices (expressed in percentages of the principal amount): to and including September 1, 1945, at 107½%; thereafter to and including September 1, 1950, at 106%; thereafter to and including September 1, 1955, at 104½%; thereafter to and including September 1, 1960, at 103%; thereafter to and including September 1, 1963, at 101½%; and thereafter 100%.

Sinking Fund

The C. C. & O. covenants that so long as any Bonds are outstanding it will pay or cause to be paid to the Trustee on March 1, 1941, and on each September 1 and March 1 thereafter as and for a sinking fund for such Bonds the sum of $110,750. The said amounts are to be applied by the Trustee, up to a date 60 days prior to the next interest payment date, to the purchase for cancellation of Bonds, if the same can be purchased at not exceeding the redemption price on the next ensuing interest payment date, or, if such purchases cannot be made within such time limit, then if the amount in the Sinking Fund is $25,000 or more, the same shall be applied to the redemption on the next interest payment date of Bonds to be drawn by lot, accrued interest in either case to be paid out of moneys other than sinking fund moneys. Such purchases may be made by the Trustee from the C. C. & O. or the Lessees at the fair market value of the Bonds (exclusive of accrued interest) but in no event at a price in excess of the redemption price on the next ensuing interest payment date. Sinking fund payments may, at the option of the C. C. & O. be made in cash, or in Bonds at the prevailing redemption price or at the cost thereof to the C. C. & O. or the Lessees, whichever is less, or partly in cash and partly in Bonds.

Issuance of Additional Bonds

The aggregate principal amount of bonds which at any time may be issued and outstanding under the Mortgage is limited to $50,000,000, except for bonds issued in lieu of lost or destroyed bonds. Bonds are issuable in series ranking *pari passu* with the Series A or other series of bonds issued under the Mortgage.

Bonds other than Series A Bonds may be issued to reimburse the C. C. & O. for expenditures made subsequent to December 31, 1939 for the improvement, construction, completion or acquisition by the C. C. & O. or its railroad subsidiary of any property of the character now or hereafter described in subdivision I ("Road") of the Classification of Investment in Road and Equipment of Steam Roads prescribed by the Interstate Commerce Commission, but always excluding equipment of the character now described in subdivision II ("Equipment") of said Classification; or of any part or interest or right in any such property, except such equipment; provided the same shall be or become subject to the first lien of the Mortgage or of the first mortgage of its railroad subsidiary.

Bonds other than Series A Bonds may also be issued against deposited cash which may be paid out for any of the above purposes.

The principal amount of bonds which may be issued plus the amount of deposited cash which may be paid out for any of the purposes set forth in the second paragraph under this heading shall not exceed 70% of the excess of the increase since December 31, 1939 in the C. C. & O.'s and its railroad subsidiary's investment in road subject to the lien of the mortgage or of its railroad subsidiary's first mortgage as a first lien over the retirements of road subject to the lien of the mortgage or of its railroad subsidiary's first mortgage as a first lien after that date.

Bonds other than Series A Bonds may be issued to refund before, at or after maturity any bonds theretofore issued under the Mortgage.

Security

The Mortgage, in the opinion of the C. C. & O.'s counsel, will, upon completion of this financing and satisfaction of the First and Consolidated Mortgage of the C. C. & O., be a first lien, subject to liens for taxes and assessments not yet due, on 265 miles of railroad now owned in fee by the C. C. & O., and a collateral first lien on the 18 miles of railroad of Carolina, Clinchfield and Ohio Railway of South Carolina by pledge of the latter's 120 shares (entire issue) of capital stock and $3,000,000 principal amount (entire issue) of First Mortgage Bonds, dated December 1, 1909, due June 1, 1938 extended to December 15, 1952. The lien will also attach to all physical property now owned by the C. C. & O. appurtenant to or used as a part of any of its lines of railroad, to equipment title to which is now vested in the C. C. & O., and to the C. C. & O.'s rights or interest in four trackage agreements covering 22 miles of road.

The Lessees will assign to the Trustee as collateral security for all bonds which may be issued under the Mortgage all right, title and interest which they may have in equipment heretofore or hereafter acquired in operating the lines of the C. C. & O. either as renewals or replacements of, or as additions and betterments to, the equipment from time to time covered by the Lease dated October 16, 1924. To the extent, if any, that the liens of outstanding mortgages of the Lessees attach to any such equipment, the aforesaid assignment to the Trustee will be subject to such liens.

The Lease dated October 16, 1924, by which the Company and its subsidiaries leased all of their railroad and other properties to Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company as joint and several Lessees, will be subordinated by the Lessees to the Mortgage.

Modification of Mortgage

The Mortgage contains provisions giving to the holders of 66⅔% in aggregate principal amount of bonds outstanding to be affected by the business to be submitted to the meeting the power by resolution at a bondholders' meeting to take the various actions therein specified including the sanction of any change or alteration of any provision of the Mortgage and any modification or compromise of the rights of the holders of the bonds against the C. C. & O. or against its property, provided that no such change or alteration shall be effective until approved by resolution of the Board of Directors of the C. C. & O. and provided that no such change or alteration which, in the opinion of the Trustee, affects its own rights, duties or immunities under the Mortgage may be made without the consent of the Trustee, and provided further that the bondholders shall have no power to (a) extend the maturity of any bonds, or reduce the rate of interest thereon, or otherwise modify the terms of payment of principal (other than a modification of any sinking fund provision in respect of any bonds) or interest without the consent of the holder of each bond so affected, or (b) effect a reduction of the percentage required for any action authorized to be taken by bondholders as aforesaid. The consent of bondholders to such change, alteration, modification or compromise may be given at a meeting of the bondholders, notice of which meeting must be published in accordance with the provisions of the Mortgage. The Trustee is required to call such meeting upon written request of the C. C. & O. or of bondholders representing at least one-tenth in the aggregate principal amount of bonds outstanding to be affected by the business to be submitted to the meeting. Provision is made whereby bondholders may vote at such meeting by proxy.

Guaranty

The Bonds will be unconditionally guaranteed as to principal, interest and sinking fund payments, jointly and severally, by an Agreement dated as of September 1, 1940 and by endorsement by Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company. In case the terms of the Sinking Fund are modified as permitted by the Mortgage the guaranty of the Sinking Fund shall apply to the Sinking Fund as so modified.

PURCHASE OF BONDS

By an agreement dated August 22, 1940 and upon the terms and conditions therein set forth and subject to authorization by the Interstate Commerce Commission, the Carolina, Clinchfield and Ohio Railway and the Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company, Lessees of, and, as to the sale, acting for and on behalf of Carolina, Clinchfield and Ohio Railway, have agreed to sell to Morgan Stanley & Co. Incorporated and the latter has agreed to purchase the $22,150,000 principal amount of First Mortgage 4% Bonds, Series A, at 100½% plus accrued interest to the date of delivery.

We are informed that by separate agreements dated August 22, 1940 with Morgan Stanley & Co. Incorporated, the investment banking houses named below have severally agreed to sub-underwrite, to the extent indicated after their respective names, a part of the offering of the Bonds.

Name	Address	Amount
Almstedt Brothers	Louisville Ky.	$ 100,000
Baker, Watts & Co.	Baltimore, Md.	150,000
BancOhio Securities Company	Columbus, Ohio	100,000
A. G. Becker & Co., Incorporated	Chicago, Ill.	250,000
Blair & Co., Inc.	New York, N. Y.	1,000,000
Blyth & Co., Inc.	New York, N. Y.	600,000
Alex. Brown & Sons	Baltimore, Md.	300,000
Central Republic Company	Chicago, Ill.	250,000
Courts & Co.	Atlanta, Ga.	100,000
Dick & Merle-Smith	New York, N. Y.	250,000
R. S. Dickson & Co., Inc.	Charlotte, N. C.	100,000
Dillon, Read & Co.	New York, N .Y.	1,200,000
Drexel & Co.	Philadelphia, Pa.	600,000
Equitable Securities Corporation	Nashville, Tenn.	150,000
Estabrook & Co.	Boston, Mass.	300,000
The First Boston Corporation	New York, N. Y.	1,100,000
First of Michigan Corporation	Detroit, Mich.	200,000
Glore, Forgan & Co.	Chicago, Ill.	300,000
Goldman, Sachs & Co.	New York, N. Y.	600,000
Harriman Ripley & Co., Incorporated	New York, N. Y.	1,100,000
Harris, Hall & Company (Incorporated)	Chicago, Ill.	300,000
Hayden, Miller and Company	Cleveland, Ohio	150,000
J. J. B. Hilliard & Son	Louisville, Ky.	150,000
W. E. Hutton & Co.	Cincinnati, Ohio	300,000
Johnson, Lane, Space and Co., Inc.	Savannah, Ga.	100,000
Kidder, Peabody & Co.	New York, N. Y.	600,000
Kuhn, Loeb & Co.	New York, N. Y.	1,350,000
Ladenburg, Thalmann & Co.	New York, N. Y.	600,000
W. W. Lanahan & Co.	Baltimore, Md.	100,000
Lazard Frères & Co.	New York, N. Y.	600,000
Lee Higginson Corporation	New York, N. Y.	600,000
Lehman Brothers	New York, N. Y.	600,000
W. L. Lyons & Co.	Louisville, Ky.	100,000
Mason-Hagan, Inc.	Richmond, Va.	100,000
Mellon Securities Corporation	Pittsburgh, Pa.	700,000
Merrill Lynch, E. A. Pierce & Cassatt	New York, N. Y.	250,000
Merrill, Turben & Co.	Cleveland, Ohio	100,000
F. S. Moseley & Co.	Boston, Mass.	300,000
R. W. Pressprich & Co.	New York, N. Y.	300,000
The Robinson-Humphrey Company	Atlanta, Ga.	100,000
Smith, Barney & Co.	New York, N. Y.	1,100,000
Stone & Webster and Blodget, Incorporated	New York, N. Y.	300,000
Spencer Trask & Co.	New York, N. Y.	300,000
Union Securities Corporation	New York, N. Y.	400,000
White, Weld & Co.	New York, N. Y.	400,000
		$18,650,000

GUARANTOR COMPANIES

ATLANTIC COAST LINE RAILROAD COMPANY

The Coast Line was originally incorporated as Richmond and Petersburg Railroad Company under an Act of the General Assembly of Virginia, passed March 14, 1836. Since then there have been several legislative amendments, the latest thereof having been approved January 12, 1900, under the terms of which the present name was adopted. As of December 31, 1939, The Atlantic Coast Line Company (a Connecticut corporation) owned $21,564,300 par value of the Coast Line's Common Capital Stock and $634,500 par value of the Class "A" Richmond and Petersburg Railroad Company Capital Stock (ranking equally with the Coast Line's Common Capital Stock). Such Common Capital Stock and Class "A" stock owned by The Atlantic Coast Line Company represents in the aggregate approximately 27% of the Coast Line's total voting stock outstanding.

The Coast Line owns $59,670,000 par value (51%), of the $117,000,000 outstanding Capital Stock of the L. & N., which is pledged with The New York Trust Company as Trustee, under an indenture dated November 1, 1902, under which $35,000,000 principal amount of Atlantic Coast Line Railroad Company Collateral Trust 4% Bonds, due October 1, 1952, are outstanding in the hands of the public.

The Coast Line operates approximately 5,100 miles of road located in the States of Virginia, North Carolina, South Carolina, Georgia, Florida and Alabama extending from Richmond and Norfolk, Va., southwardly to Wilmington, N. C., Charleston and Columbia, S. C., Savannah and Augusta, Ga., Montgomery, Ala., Jacksonville, Tampa, Port Tampa, St. Petersburg and other points in Florida. Of the mileage operated, the Coast Line owns 4,777 miles of main line and branches. Its principal main line as operated extends from Richmond, Va., to Port Tampa, Fla., a distance of 909 miles, and, with the secondary main lines and branch lines, serves a territory largely devoted to agriculture, including the greater part of the citrus fruit and winter vegetable producing sections of Florida. A considerable tonnage of phosphate and timber originates on its lines, and petroleum products constitute another important traffic item.

The Coast Line owns one-sixth of the Capital Stock of the Richmond-Washington Company which controls the Richmond, Fredericksburg and Potomac Railroad Company through ownership of a majority of its capital stock.

The Coast Line and the L. & N. jointly lease from the Georgia Rail Road and Banking Company a railroad and certain stocks and bonds. The railroad is operated under the name of "Georgia Railroad" (not incorporated) which, together with leased lines and trackage rights, is 329 miles in length. Neither the rental payable under the lease nor the results of the operation of the Georgia Railroad are reflected in the respective income accounts of the Coast Line and the L. & N. Dividends on capital stock and interest on bonds held under the lease have been included in equal proportion in the respective income accounts of the Coast Line and the L. & N.

The Coast Line now owns a 22.36% stock interest in the Fruit Growers Express Company and has entered into a contract with that company which is designed to assure at all times an adequate supply of refrigerator cars for the movement of citrus fruits and vegetables.

The classification of the revenue freight traffic carried over the lines of the Coast Line in 1939 and the revenue therefrom were as follows:

	Revenue Freight Tonnage	Freight Revenue	Percent of Total	
			Revenue Freight Tonnage	Freight Revenue
Products of Agriculture	1,835,916	$11,171,492	11.83	31.41
Animals and Products	164,592	883,286	1.06	2.48
Products of Mines	5,657,818	4,868,372	36.46	13.69
Products of Forests	3,271,421	4,916,618	21.08	13.82
Manufactures and Miscellaneous	4,120,322	9,710,217	26.55	27.30
All L. C. L. Freight	467,746	4,016,941	3.02	11.30
Total	15,517,815	$35,566,926	100.00	100.00

Approximately 15% of the Coast Line's freight revenue for the year 1939 was derived from shipments of oranges, tangerines and grapefruit.

The Florida commercial citrus fruit crop of the 1939-1940 season was damaged by the unfavorable weather conditions in the Southeastern States during the month of January, 1940. The Federal Crop Reporting Board estimates the 1939-1940 crop at 41,800,000 boxes, compared with approximately 57,500,000 in 1938-1939. About 58% of the interstate movement from the 1939-1940 crop was shipped by rail and express, and about 33% of the 1939-1940 interstate movement was carried over the lines of the Coast Line.

In recent years the Coast Line has experienced increasingly active competition in citrus fruit movement out of Florida from trucks operating into the interior and from truck-boat movement to North Atlantic ports. In December 1934 and again in December 1935 reductions were made in all-rail rates on citrus fruits from Florida to North Atlantic ports. Under the latter reduction, the all-rail rates apply on minimum carloadings of 36,000 pounds and were approximately the same as the rates charged by the truck-boat lines to Northern port cities, excepting Boston and other New England points. In December 1935, the minimum carloading and rail rates on citrus fruit shipments to Southeastern interior points were also reduced. To points in the Middle West and the East, other than the North Atlantic ports, a reduction of 20 cents per 100 pounds was made effective in November 1936, likewise subject to minimum carloading of 36,000 pounds. Increasing inroads of motor trucks on the movement from Florida to Southeastern points and to Washington, D. C., made necessary a further reduction in the truck competitive rates to those points. Those reductions became effective March 16, 1939, the rates after that date ranging from 25% to 50% under normal rail rates, whereas the truck competitive rates previously in effect ranged from 15% to 50% under normal rail rates, the reductions varying with the intensity of the truck competition. These rate reductions have resulted in attracting a portion of this class of traffic back to the rail lines.

Financial Statements

There are appended hereto the Coast Line's Financial Statements described on page 7.

Capitalization

	Outstanding in hands of the Public as of December 31, 1939
Mortgage Bonds (including $300,000 maturing in 1940)	$ 93,612,000
Collateral Trust Bonds	35,000,000
Ten-Year Collateral Trust Notes	12,000,000
Equipment Trust Obligations (including $599,000 maturing in 1940)	4,040,000*
Miscellaneous Obligations	135,100
Total Funded Debt	$144,787,100*
Preferred Capital Stock (5% Non-cumulative, par value $100)	$ 196,700
Class "A" Richmond and Petersburg Railroad Company Capital Stock (par value $100)	1,000,000**
Common Capital Stock (par value $100)	81,342,700
Total Capital Stock	$ 82,539,400

* Does not include the Coast Line's joint and several liability with the L. & N. with respect to $1,573,000 Clinchfield Railroad 2¼% Equipment Trust Certificates, dated March 1, 1937, due $121,000 on March 1 of each year from 1940 to 1952, inclusive, which are carried as a liability on the books of the Clinchfield Railroad Company.

** Ranks equally with the Coast Line's Common Capital Stock.

For guaranties of the Coast Line see Note A to Exhibit G.

For a description of the guaranty by the Coast Line and the L. & N. of the Bonds offered hereby see page 10.

Earnings

The following compilation has been prepared from the Condensed Statement of Income of the Coast Line (Exhibit H) and is subject to the notes forming an integral part of that Statement and to the information in the Statement of Profit and Loss (Exhibit I).

Years Ended December 31,	Total Railway Operating Revenues	Net Railway Operating Income	Income Available for Fixed Charges	Fixed Charges	Net Income
1930	$63,019,957	$7,241,303	$13,133,032	$6,878,441	$6,254,591
1931	54,088,005	4,748,110	8,841,621	6,820,763	2,020,858
1932	37,268,564	108,199	73,994	6,759,223	*6,685,229* Loss
1933	37,908,943	4,299,812	4,302,958	6,688,746	*2,385,788* Loss
1934	39,533,827	4,289,557	6,052,769	6,548,247	*495,478* Loss
1935	39,032,882	2,578,763	4,059,532	6,588,987	*2,529,455* Loss
1936	43,593,213	4,415,754	8,405,065	6,489,910	1,915,155
1937	47,972,180	4,938,774	8,911,178	6,457,037	2,454,141
1938	44,164,025	2,390,751	4,592,087	6,450,537	*1,858,450* Loss
1939	47,099,287	3,781,872	7,173,112	6,369,038	804,074
Six Months Ended June 30,					
1939	26,119,359	2,711,882	3,316,287	3,231,530	84,757
1940	26,276,332	1,143,051	1,988,602	3,131,447	*1,142,845* Loss

The figures for the six months ended June 30, 1939 and 1940, respectively, do not include the amount of the Coast Line's proportion of the profit from operations of the Clinchfield Railroad Company, after deducting the Coast Line's proportion of rent paid under the Lease described on page 4. The Coast Line's proportion of such profit was $40,656 for the six months ended June 30, 1939 and $400,586 for the six months ended June 30, 1940.

Since 1929 the following amounts as dividends on the L. & N. Capital Stock owned by the Coast Line are included in the income available for fixed charges of the Coast Line: 1930, $4,176,900; 1931, $2,685,150; 1932 and 1933, nil; 1934, $1,790,100; 1935, $1,491,750; 1936, $3,580,200; 1937, $3,580,200; 1938, $2,386,800; 1939, $2,983,500; and in 1940 to June 30, $745,875, and an additional $1,640,925 is receivable August 26, 1940.

Dividends

Dividends on the non-cumulative Preferred Stock have been paid at the rate of 5% per annum since November 15, 1900 with the following exceptions: 1932, 2½%; 1933, nil; 1934, 2½%; 1939, 2½%.

The Coast Line paid dividends on its Common Capital Stock (including Richmond and Petersburg Class "A") in each year from 1901 to and including 1932. The record since 1929 has been as follows: 1930, 10%; 1931, 8½%; 1932, 2%; 1933-1935, inclusive, nil; 1936, 1%; 1937, 1½%; 1938, 1939 and 1940 to date, nil.

LOUISVILLE AND NASHVILLE RAILROAD COMPANY

The L. & N. was incorporated by a special Act of the Legislature of the State of Kentucky, approved March 5, 1850. It owns 4,651 miles of main line and branches situated in the States of Ohio, Illinois, Indiana, Missouri, Kentucky, Tennessee, Virginia, North Carolina, Georgia, Alabama, Mississippi, Florida and Louisiana, of which 251 miles are leased to other railroads. It operates a total of 4,871 miles, of which 4,406 miles are owned, 148 miles are operated under contract or trackage rights or by virtue of ownership of the entire capital stock of other railroad companies, and 317 miles are operated under lease.

The L. & N. controls, through ownership of 71.78% of its outstanding capital stock, The Nashville, Chattanooga & St. Louis Railway, the properties of which are not operated by or leased to the L. & N. The Nashville, Chattanooga & St. Louis Railway operates 1,111 miles of main line and branches in the States of Kentucky, Tennessee, Alabama and Georgia. At December 31, 1939, The Nashville, Chattanooga & St. Louis Railway had outstanding in the hands of the public $17,528,000 principal amount of funded debt.

The L. & N. serves important commercial and industrial centers of the Middle South from the Ohio River to the Gulf, its principal line extending from Cincinnati to New Orleans, via Louisville, Nashville, Birmingham, Montgomery and Mobile, with lines to St. Louis, Mo., Evansville, Ind., Memphis, Tenn., Atlanta, Ga., Pensacola and River Junction, Fla., and other important cities. Its lines connect with those of the Coast Line at River Junction, Fla., and Montgomery, Ala.; and at Atlanta, Ga., over the Georgia Railroad which is leased and operated jointly with the Coast Line (see page 12).

The L. & N. obtains traffic moving by rail and water through the ports of New Orleans, Mobile, Gulfport and Pensacola.

Business

The L. & N. is one of the important bituminous coal carriers of the country. Extensions from its Atlanta-Cincinnati main line tap the rich coal fields around Hazard and Harlan in eastern Kentucky. The greater part of its coal traffic originates in these fields but it also obtains substantial coal tonnage from Alabama, western Kentucky, western Virginia, and eastern Tennessee. In the aggregate this tonnage is by far the most important single class of traffic handled by the L. & N.

The lines of the L. & N. serve fruit growing sections in the South, and tap an area devoted to the production of winter vegetables from which there is a movement to northern markets, and, in conjunction with the line of the Coast Line through Montgomery, form a principal route for the movement of Florida fruits and vegetables to the markets of the Middle West.

The classification of the revenue freight traffic carried over the L. & N. in 1939 and the revenue therefrom were as follows:

			Percent of Total	
	Revenue Freight Tonnage	Freight Revenue	Revenue Freight Tonnage	Freight Revenue
Products of Agriculture	2,035,681	$ 7,209,639	4.84	9.42
Animals and Products	319,360	1,735,131	.76	2.27
Products of Mines:				
Coal and Coke	24,763,515	29,893,539	58.83	39.08
Other Products of Mines	5,210,811	4,994,861	12.38	6.53
Products of Forests	2,104,677	5,040,306	5.00	6.59
Manufactures and Miscellaneous	7,026,979	21,891,036	16.69	28.62
All L. C. L. Freight	632,149	5,727,497	1.50	7.49
Total	42,093,172	$76,492,009	100.00	100.00

For comparative purposes the total revenue freight and revenue coal and coke tonnage and the total freight and coal and coke revenues since 1929 are shown below:

Years Ended December 31,	Revenue Coal and Coke Tonnage	Coal and Coke Revenue	Total Revenue Freight Tonnage	Total Freight Revenue
1930	30,185,193	$36,471,534	51,735,263	$93,390,473
1931	23,776,296	28,855,487	39,017,373	72,865,043
1932	18,432,200	23,002,676	28,237,490	53,553,418
1933	19,808,616	24,179,886	30,942,091	56,190,926
1934	20,671,799	24,484,102	33,191,929	59,118,777
1935	22,745,263	27,897,406	35,830,970	63,920,654
1936	28,811,914	35,461,309	45,092,224	78,278,272
1937	28,164,335	33,174,892	45,943,060	76,863,874
1938	21,735,091	26,572,909	36,912,679	67,605,607
1939	24,763,515	29,893,539	42,093,172	76,492,009
Six Months Ended June 30,				
1939	9,655,788	12,088,208	17,647,982	34,386,183
1940	14,689,378	17,735,388	23,775,607	41,482,425

Financial Statements

There are appended hereto the L. & N.'s Financial Statements described on page 7.

Capitalization

	Outstanding in hands of the Public as of December 31, 1939
Mortgage Bonds	$209,665,000*
L. & N.-Southern, Monon Collateral, Joint Bonds	11,811,500**
Equipment Trust Obligations (including $465,000 maturing in 1940)	6,315,000***
Miscellaneous Obligations	3,530
Total Funded Debt	$227,795,030***
Capital Stock (par value $100 per share)	$117,000,000

* On February 1, 1940, the L. & N. issued $30,000,000 Ten Year Collateral Trust 3½% Bonds, due January 1, 1950, and $30,000,000 Twenty Year Collateral Trust 4% Bonds, due January 1, 1960. The proceeds from the sale of the $60,000,000 Collateral Trust Bonds together with funds provided by the L. & N. were deposited with Central Hanover Bank and Trust Company, Trustee under the Collateral Trust Indenture and were applied toward the purchase of $60,000,000 of the $69,216,000 principal amount of Unified Fifty Year Four Per Cent. Mortgage Bonds, due July 1, 1940. The $60,000,000 purchased Unified Mortgage Bonds were extended, half in principal amount to January 1, 1950 with interest at the rate of 3½% per annum and half to January 1, 1960 with interest at the rate of 4% per annum from January 1, 1940. As of August 17, 1940 $44,765,000 Collateral Trust Bonds had been exchanged and the balance are exchangeable for Extended Unified Mortgage Bonds of the same maturity in equal principal amounts. The L. & N. deposited with the Trustee of the Unified Mortgage sufficient funds for the payment of the Unified Mortgage Bonds which were not extended.

** The L. & N. and Southern Railway Company are jointly liable for these bonds, the total issue of which is $11,827,000 principal amount. The L. & N., however, owns $31,000 principal amount of said bonds, and the figure, $11,811,500, in the above tabulation is obtained by subtracting from the total issue of $11,827,000 the amount of the L. & N.'s one-half of the liability on the bonds held by it. As between the joint obligors, the L. & N.'s proportion of liability is $5,898,000, and the Southern Railway Company's is $5,913,500.

*** Does not include the L. & N.'s joint and several liability with the Coast Line with respect to $1,573,000 Clinchfield Railroad 2¼% Equipment Trust Certificates, dated March 1, 1937, due $121,000 on March 1 of each year from 1940 to 1952, inclusive, which are carried as a liability on the books of the Clinchfield Railroad Company.

For guaranties of the L. & N. see Note A to Exhibit J.

For a description of the guaranty by the L. & N. and the Coast Line of the Bonds offered hereby see page 10.

Earnings

The following compilation has been prepared from the Condensed Statement of Income of the L. & N. (Exhibit K) and is subject to the notes forming an integral part of that statement and to the information in the Statement of Profit and Loss (Exhibit L).

Years Ended December 31,	Total Railway Operating Revenues	Income Available for Fixed Charges	Total Fixed Charges	Net Income
1930	$112,424,563	$17,633,805	$11,027,723	$6,606,082
1931	86,999,192	11,798,708	10,758,762	1,039,946
1932	63,898,844	8,597,835	10,706,710	*2,108,875* Loss
1933	65,639,216	12,386,711	10,590,995	1,795,716
1934	69,947,150	13,417,409	10,450,024	2,967,385
1935	75,679,319	14,444,027	10,315,084	4,128,943
1936	91,040,151	20,052,235	10,423,763	9,628,472
1937	90,194,993	16,676,922	9,576,576	7,100,346
1938	79,394,560	12,189,653	9,483,637	2,706,016
1939	88,348,256	16,867,135	9,472,904	7,394,231
Six Months Ended June 30,				
1939	40,384,613	6,112,318	4,739,767	1,372,551
1940	47,542,633	8,263,659	4,691,079	3,572,580

The figures for the six months ended June 30, 1939 and 1940, respectively, do not include the amount of the L. & N.'s proportion of the profit from operations of the Clinchfield Railroad Company, after deducting the L. & N.'s proportion of rent paid under the Lease described on page 4. The L. & N.'s proportion of such profit was $40,656 for the six months ended June 30, 1939 and $400,585 for the six months ended June 30, 1940.

Dividends

In 61 of the 77 years from 1864 to 1940 inclusive, the L. & N. has paid cash dividends on its Capital Stock. The record since 1929 has been as follows: 1930, 7%; 1931, 6%; 1932, 2%; 1933, nil; 1934, 3%; 1935, 2½%; 1936, 6%; 1937, 6%; 1938, 4%; 1939, 5%, and 1940 to date, 4%, including 2¾% payable August 26, 1940.

The foregoing information as to the C. C. & O., the Coast Line and the L. & N. is furnished respectively by each such corporation as to itself alone. The foregoing information as to Clinchfield Railroad Company (unincorporated Lessee Organization) is furnished jointly by the Coast Line and the L. & N.

Yours very truly,

CAROLINA, CLINCHFIELD AND OHIO RAILWAY,
By Edward C. Bailly,
Vice-President.

ATLANTIC COAST LINE RAILROAD COMPANY, Lessee,
By Lyman Delano,
Chairman of the Board.

LOUISVILLE AND NASHVILLE RAILROAD COMPANY, Lessee,
By Lyman Delano,
Chairman of the Board.

Morgan Stanley & Co. Incorporated is authorized by agreements with the other investment banking houses named on page 11 during the terms of said agreements, (1) to buy and to sell Bonds, in the open market or otherwise, for either long or short account, on such terms and at such prices as Morgan Stanley & Co. Incorporated in its discretion shall deem desirable, and (2) in arranging for sales to dealers to over-allot. Such purchases and sales and over-allotments shall be made for the several accounts of Morgan Stanley & Co. Incorporated and such investment banking houses as nearly as practicable in proportion to the respective principal amounts of Bonds sub-underwritten and with respect to Morgan Stanley & Co. Incorporated the principal amount of Bonds not sub-underwritten; provided, however, that at no time shall the net commitment of any sub-underwriter, for either long or short account, exceed 10% of the principal amount of Bonds sub-underwritten by it.

The purpose of the provisions referred to in the foregoing paragraph is to enable Morgan Stanley & Co. Incorporated to facilitate the distribution of said Bonds in the manner and within the limits above set forth for the purpose of stabilizing the market price thereof. The existence of this provision is no assurance that any such transactions will be effected, or, if effected, that they will not be discontinued at any time.

MORGAN STANLEY & CO. INCORPORATED.

CERTIFICATE

August 21, 1940.

Mr. Edward C. Bailly, Vice-President,
Carolina, Clinchfield and Ohio Railway,
New York, N. Y.

As Secretary & Treasurer of the Carolina, Clinchfield and Ohio Railway I have supervision over the books of account of the Railway and its subsidiaries and the manner in which they are kept. Such books, to the best of my knowledge and belief, during the period covered by the accompanying consolidated financial statements of the Railway and its subsidiaries have been kept in good faith in accordance with the accounting and other orders of the Interstate Commerce Commission effective during such period.

The accompanying Consolidated General Balance Sheet as of December 31, 1939 (Exhibit A), Consolidated Condensed Statement of Income for the calendar years 1930 to 1939, inclusive, and for the six months ended June 30, 1939 and 1940, (Exhibit B), and the Consolidated Statement of Profit and Loss for the years 1930 to 1939, inclusive, (Exhibit C) have been prepared from the books of the companies and, with the notes forming an integral part thereof, present fairly the consolidated financial position of the companies on December 31, 1939, and the consolidated income for the periods covered by such Exhibit B.

Very truly yours,

T. J. Cunningham,
Secretary & Treasurer.

CAROLINA, CLINCHFIELD
AND SUBSIDIARY COMPA

CONSOLIDATED GENERAL BALAN

ASSETS

INVESTMENTS:		
Investment in Road and Equipment (Note C):		
Road	$55,135,299	
Equipment	10,509,585	$65,644,884
Deposits in lieu of Mortgaged Property Sold		326,930
Miscellaneous Physical Property		64,389
TOTAL INVESTMENTS		$66,036,203
CURRENT ASSETS:		
Cash		$ 23
Special Deposits		1,000
Rents Receivable		312,500
TOTAL CURRENT ASSETS		$ 313,523
DEFERRED ASSETS:		
Working Fund Advances		$ 100
Due from Clinchfield Railroad Company:		
To be accounted for at termination of Lease		3,039,733
For Property Retired		1,235,910
TOTAL DEFERRED ASSETS		$ 4,275,743
UNADJUSTED DEBITS:		
Securities Issued or Assumed—C. C. & O.:		
Par Value of Holdings—Pledged	$14,150,000	
TOTAL ASSETS		$70,625,469

NOTE A—

As of December 31, 1939 the entire issues of the following securities, eliminated upon consolidation, were pledged as collateral under the C. C. & O. First and Consolidated Mortgage:

	Par Value
Carolina, Clinchfield and Ohio Railway of South Carolina:	
Capital Stock	$ 12,000
First Mortgage 5% Bonds, extended from June 1, 1938 to Dec. 15, 1952	3,000,000
Promissory Notes, due April 1, 1956	54,428
Clinchfield Northern Railway of Kentucky:	
Capital Stock	$ 5,000
First Mortgage Five Per Cent Notes, matured Jan. 1, 1920	500,000
Promissory Note, due April 1, 1956	6,201

NOTE B—

On March 26, 1940, the properties of Clinchfield Northern Railway of Kentucky, a wholly owned subsidiary, were conveyed to Carolina, Clinchfield and Ohio Railway.

NOTE C—

In acquiring the portion of its road constructed, under contract, by the Meadows Company, the Carolina, Clinchfield and Ohio Railway charged its Investment in Road and Equipment in the net amount of $38,581,917 representing the excess of certain securities of a par value of $41,964,000

Exhibit A

AND OHIO RAILWAY

NIES (Notes A and B)

CE SHEET—DECEMBER 31, 1939

LIABILITIES

Capital Stock		$25,000,000
Long Term Debt:		
Funded Debt Unmatured—C. C. & O.:		
Book liability	$36,300,000	
Held by or for Company	14,150,000	$22,150,000
Current Liabilities:		
Funded Debt Matured Unpaid		$ 1,000
Unmatured Dividends Declared		312,500
Total Current Liabilities		$ 313,500
Deferred Liabilities—Due to Clinchfield Railroad Company:		
For securities surrendered by Lessees		$2,840,887
For payments by Lessees to Trustee of C. C. & O. First and Consolidated Mortgage		452,940
For additions and betterments		185,469
Total Deferred Liabilities		$3,479,296
Unadjusted Credits—Accrued Depreciation—Equipment (Note D)		$ 2,079,802
Corporate Surplus:		
Additions to Property through Income and Surplus		$ 70,992
Profit and Loss—Balance		17,531,879
Total Corporate Surplus		$17,602,871
Total Liabilities		$70,625,469

NOTE C—Continued

issued to that company, over $3,300,000 par value of securities and $82,083 accrued interest thereon received from the Meadows Company. Such net amount of $38,581,917 charged to Investment in Road and Equipment by the Carolina, Clinchfield and Ohio Railway exceeded the cash expenditures for construction of such property recorded on the books of the Meadows Company by $17,372,212, substantially all of which excess is still included in the Investment in Road and Equipment accounts of the Carolina, Clinchfield and Ohio Railway.

In an exhibit entitled "Elements of Value of Property Used in Common-Carrier Service to January 1, 1937" submitted in the course of hearings on Ex Parte 123 the Interstate Commerce Commission, Bureau of Valuation, gives the following figures for Clinchfield Railroad Company (unincorporated lessee organization):

Original cost, less depreciation (except land and rights)	$35,957,245
Cost of Reproduction, less depreciation (except land and rights)	39,210,002
Present Value of land and rights	933,622

The Investments in Road and Equipment of the Carolina, Clinchfield and Ohio Railway and its subsidiary companies have not changed materially since January 1, 1937.

NOTE D—

This amount represents depreciation accrued before the equipment was transferred to the Lessees pursuant to the Lease dated October 16, 1924. No provision has been made for depreciation of Road.

CAROLINA, CLINCHFIELD AND OHIO

CONSOLIDATED CONDENSED

FOR THE CALENDAR YEARS 1930 TO 1939, INCLUSIVE,

	1930	1931	1932	1933
RAILWAY TAX ACCRUALS (Note A)	$ 211,626	$ 161,308	$ 169,101	$ 206,000
NET RAILWAY OPERATING INCOME	*$ 211,626*	*$ 161,308*	*$ 169,101*	*$ 206,000*
OTHER INCOME:				
Income from Lease of Road and Equipment (Note A)	$2,730,346	$2,656,544	$2,631,885	$2,635,645
Miscellaneous Income	391	122	42	21
Total Other Income	$2,730,737	$2,656,666	$2,631,927	$2,635,666
TOTAL INCOME	$2,519,111	$2,495,358	$2,462,826	$2,429,666
MISCELLANEOUS DEDUCTIONS FROM INCOME:				
Maintenance of Corporate Organization	$ 13,623	$ 13,743	$ 12,938	$ 13,574
Other Deductions	43,823	13,388	7,043	6,843
Total Miscellaneous Deductions	$ 57,446	$ 27,131	$ 19,981	$ 20,417
INCOME AVAILABLE FOR FIXED CHARGES	$2,461,665	$2,468,227	$2,442,845	$2,409,249
FIXED CHARGES:				
Interest on Funded Debt	$1,497,276*	$1,474,714	$1,442,457	$1,410,185
TOTAL FIXED CHARGES	$1,497,276	$1,474,714	$1,442,457	$1,410,185
NET INCOME	$ 964,389	$ 993,513	$1,000,388	$ 999,064
Dividend Appropriations of Income	$1,000,000	$1,000,000	$1,000,000	$ 750,000
INCOME BALANCE TRANSFERRED TO PROFIT AND LOSS	*$ 35,611*	*$ 6,487*	$ 388	$ 249,064

* Includes $10 Interest on Unfunded Debt.

Italics denote red figures.

NOTE A—

The amounts of Railway Tax Accruals and Income from Lease of Road and Equipment as shown by the books of account for the years 1930, 1931 and 1932 and for the six months ended June 30, 1940 have been restated above in accordance with the classification of accounts of the Interstate Commerce Commission effective during the other periods shown in the above Condensed Statement of Income.

CAROLINA, CLINCHFIELD AND OHIO

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

CREDITS	1930	1931	1932	1933
Credit Balance at Beginning of Year	$20,213,757	$20,175,028	$20,166,129	$20,139,449
Credit Balance transferred from Income	Dr. 35,611	Dr. 6,487	388	249,064
Credits from Retired Road and Equipment	105	....	....	....
Donations	Dr. 4,824	Dr. 2,748	183	....
Miscellaneous Credits	24,277	8,715	....	....
Total	$20,197,704	$20,174,508	$20,166,700	$20,388,513
DEBITS				
Surplus Appropriated for Investment in Physical Property	$ Cr. 5,014	$ Cr. 2,748	$ 183	$ ....
Debt Discount Extinguished Through Surplus	1,449	65	27,139	28
Debits from Retired Road and Equipment	4,264	1,615	343	....
Miscellaneous Debits	21,977	9,447	Cr. 414	2,568,259(A)
	$ 22,676	$ 8,379	$ 27,251	$ 2,568,287
Credit Balance at End of Year	20,175,028	20,166,129	20,139,449	17,820,226
Total	$20,197,704	$20,174,508	$20,166,700	$20,388,513

NOTE A—

Includes $2,567,902 reduction in book value of stocks of subsidiary companies.

Exhibit B

RAILWAY AND SUBSIDIARY COMPANIES

STATEMENT OF INCOME
AND FOR THE SIX MONTHS ENDED JUNE 30, 1939 AND 1940

						Six Months Ended June 30,	
1934	1935	1936	1937	1938	1939	1939	1940
$ 180,000	$ 180,000	$ 193,700	$ 261,858	$ 208,232	$ 239,662	$ 131,614	$ 130,872
$ 180,000	*$ 180,000*	*$ 193,700*	*$ 261,858*	*$ 208,232*	*$ 239,662*	*$ 131,614*	*$ 130,872*
$2,580,948	$2,553,855	$2,565,908	$2,634,901	$2,627,235	$2,553,405	$1,290,770	$1,277,706
35	23	50	45	10	....	....	....
$2,580,983	$2,553,878	$2,565,958	$2,634,946	$2,627,245	$2,553,405	$1,290,770	$1,277,706
$2,400,983	$2,373,878	$2,372,258	$2,373,088	$2,419,013	$2,313,743	$1,159,156	$1,146,834
$ 13,897	$ 13,356	$ 12,035	$ 13,348	$ 14,505	$ 12,412	$ 6,441	$ 5,968
6,952	6,403	6,833	6,375	6,781	5,395	4,789	4,727
$ 20,849	$ 19,759	$ 18,868	$ 19,723	$ 21,286	$ 17,807	$ 11,230	$ 10,695
$2,380,134	$2,354,119	$2,353,390	$2,353,365	$2,397,727	$2,295,936	$1,147,926	$1,136,139
$1,380,267	$1,354,385	$1,353,350	$1,353,350	$1,150,610	$1,046,000	$ 523,000	$ 511,187
$1,380,267	$1,354,385	$1,353,350	$1,353,350	$1,150,610	$1,046,000	$ 523,000	$ 511,187
$ 999,867	$ 999,734	$1,000,040	$1,000,015	$1,247,117	$1,249,936	$ 624,926	$ 624,952
$1,000,000	$1,250,000	$1,000,000	$1,000,000	$1,250,000	$1,250,000	$ 625,000	$ 625,000
$ 133	*$ 250,266*	$ 40	$ 15	*$ 2,883*	*$ 64*	*$ 74*	*$ 48*

Exhibit C

RAILWAY AND SUBSIDIARY COMPANIES

FOR THE CALENDAR YEARS 1930 TO 1939, INCLUSIVE

1934	1935	1936	1937	1938	1939
$17,820,226	$17,819,940	$17,567,394	$17,567,434	$17,567,380	$17,531,943
Dr. 133	Dr. 250,266	40	15	Dr. 2,883	Dr. 64
....	....	....	....	....	....
....	....	....	....	....	....
....	253	....	....	....	....
$17,820,093	$17,569,927	$17,567,434	$17,567,449	$17,564,497	$17,531,879
$	$	$	$	$	$ ....
153	61	....	61	32,554	....
....	2,447	....	....	....	....
....	25	....	8	....	....
$ 153	$ 2,533	$	$ 69	$ 32,554	$ ....
17,819,940	17,567,394	17,567,434	17,567,380	17,531,943	17,531,879
$17,820,093	$17,569,927	$17,567,434	$17,567,449	$17,564,497	$17,531,879

AUDITORS' CERTIFICATE

HASKINS & SELLS
Certified Public Accountants
67 Broad Street
New York

Atlantic Coast Line Railroad Company,
Louisville and Nashville Railroad Company,
Clinchfield Railroad Company,
71 Broadway,
New York, N. Y.

We have examined the balance sheets of Atlantic Coast Line Railroad Company, Louisville and Nashville Railroad Company, and Clinchfield Railroad Company (unincorporated lessee organization) as of December 31, 1939 and the related statements of income and profit and loss for the year 1939. In connection therewith, we made a review of the accounting methods of the companies and examined or tested their accounting records and other supporting evidence. Such examination included the verification by count or confirmation from depositaries of the cash and securities owned on December 31, 1939. Previously we made similar examinations for the years 1930 to 1938, inclusive.

The accounts of the companies have consistently been kept and their financial statements prepared in accordance with the requirements of the Interstate Commerce Commission.

In our opinion, on the basis of the ledger value of investments in affiliated and other companies, the accompanying balance sheets and related statements of income and profit and loss, with their footnotes, present fairly the financial condition of the companies on December 31, 1939 and the results of their operations for the ten years ended that date.

Haskins & Sells

New York, August 21, 1940.

CERTIFICATE

August 21, 1940

Mr. Lyman Delano,
Chairman of the Boards,
Atlantic Coast Line Railroad Company and
Louisville and Nashville Railroad Company,
New York, N. Y.

As General Auditor of the Clinchfield Railroad Company I have supervision over the books of account of the Railroad and the manner in which they are kept. Such books, to the best of my knowledge and belief, during the period covered by the accompanying financial statements of the Railroad have been kept in good faith in accordance with the accounting and other orders of the Interstate Commerce Commission effective during such period.

The accompanying General Balance Sheet as of December 31, 1939 (Exhibit D), Condensed Statement of Income for the calendar years 1930-1939, inclusive, and for the six months ended June 30, 1939 and 1940 (Exhibit E), and the Statement of Profit and Loss for the calendar years 1930-1939, inclusive, (Exhibit F) have been prepared from the books of the Railroad and, with the notes forming an integral part thereof, present fairly the financial position of the Railroad on December 31, 1939 and the results of operations for the periods covered by such Exhibit E.

Very truly yours,

Chas. Hewett
General Auditor

CERTIFICATE

August 21, 1940

Mr. Lyman Delano,
Chairman of the Board,
Atlantic Coast Line Railroad Company,
New York, N. Y.

As Comptroller of Atlantic Coast Line Railroad Company I have supervision over the books of account of the Railroad and the manner in which they are kept. Such books, to the best of my knowledge and belief, during the period covered by the accompanying financial statements of the Railroad have been kept in good faith in accordance with the accounting and other orders of the Interstate Commerce Commission effective during such period.

The accompanying General Balance Sheet as of December 31, 1939 (Exhibit G), Condensed Statement of Income for each of the calendar years 1930-1939, inclusive, and for the six months ended June 30, 1939 and 1940 (Exhibit H), and the Statement of Profit and Loss for the years 1930-1939, inclusive, (Exhibit I) have been prepared from the books of the Railroad and, with the notes forming an integral part thereof, present fairly the financial position of the Railroad on December 31, 1939 and the results of operations for the periods covered by such Exhibit H.

Very truly yours,

W. D. McCaig
Comptroller

CERTIFICATE

August 21, 1940

Mr. Lyman Delano,
Chairman of the Board,
Louisville and Nashville Railroad Company,
New York, N. Y.

As Comptroller of Louisville and Nashville Railroad Company I have supervision over the books of account of the Railroad and the manner in which they are kept. Such books, to the best of my knowledge and belief, during the period covered by the accompanying financial statements of the Railroad have been kept in good faith in accordance with the accounting and other orders of the Interstate Commerce Commission effective during such period.

The accompanying General Balance Sheet as of December 31, 1939 (Exhibit J), Condensed Statement of Income for the calendar years 1930-1939, inclusive, and for the six months ended June 30, 1939 and 1940 (Exhibit K), and the Statement of Profit and Loss for the calendar years 1930-1939, inclusive, (Exhibit L) have been prepared from the books of the Railroad and, with the notes forming an integral part thereof, present fairly the financial position of the Railroad on December 31, 1939 and the results of operations for the periods covered by such Exhibit K.

Very truly yours,

A. J. Pharr
Comptroller

CLINCHFIELD RAILROAD COMPANY

GENERAL BALANCE

ASSETS

INVESTMENTS:		
Investment in Road and Equipment:		
Equipment		$ 2,438,512
Improvements on Leased Railway Property		14,038
Deposits in lieu of Mortgaged Property Sold		6,352
Miscellaneous Physical Property		18,983
Investments in Affiliated Companies: (Note B)		
Stocks—Partly Pledged	$ 888,413	
Bonds	300,000	
Advances	460,509	1,648,922
TOTAL INVFSTMENTS		$ 4,126,807
CURRENT ASSETS:		
Cash		$ 2,231,798
Special Deposits		24,396
Traffic and Car-Service Balances Receivable		520,239
Net Balance Receivable from Agents and Conductors		26,348
Miscellaneous Accounts Receivable		44,197
Material and Supplies		440,435
Other Current Assets		11,343
TOTAL CURRENT ASSETS		$ 3,298,756
DEFERRED ASSETS:		
Working Fund Advances		$ 1,475
Other Deferred Assets:		
Due from Carolina, Clinchfield and Ohio Railway:		
For securities surrendered by Lessees	$2,840,887	
For payments by Lessees to Trustee of C. C. & O. First and Consolidated Mortgage	452,940	
For additions and betterments	185,469	
TOTAL	$3,479,296	
Less amount due to Carolina, Clinchfield and Ohio Railway for property retired	1,235,910	
	$2,243,386	
Other items (Note C)	427,152	2,670,538
TOTAL DEFERRED ASSETS		$ 2,672,013
UNADJUSTED DEBITS:		
Rents and Insurance Premiums Paid in Advance		$ 1,285
Discount on Funded Debt		31,851
Other Unadjusted Debits		81,069
TOTAL UNADJUSTED DEBITS		$ 114,205
TOTAL ASSETS		$10,211,781

NOTE A—The above balance sheet includes as a liability $1,573,000 Clinchfield Railroad Serial Equipment Trust Certificates which are joint and several obligations of Atlantic Coast Line Railroad Company and the Louisville and Nashville Railroad Company.

NOTE B—Investments in Affiliated Companies:

	Par Value			
Stocks:	In Treasury	Pledged	Total	Book Value
Holston Land Company, Incorporated		$750,000	$750,000	$713,313
Southport Harbor Company	$ 50,000		50,000	50,000
Railway Express Agency, Inc. (1 share, no par value)				100
Spartanburg Land Company	125,000		125,000	125.000
Total stocks	$175 000	$750.000	$925,000	$888,413

Bonds:	Par Value	Book Value
Black Mountain Railway Company bonds—		
First Mortgage 5% Bonds (matured April 1, 1936)	$300,000	$300,000
6% Convertible First Income Debentures	50,000	
6% Second Income Debentures	250.000	None
Total bonds	$600.000	$300.000

Exhibit D

(UNINCORPORATED LESSEE ORGANIZATION)

SHEET—DECEMBER 31, 1939

LIABILITIES

LONG TERM DEBT:		
Equipment Trust Obligations ($121,000 due in 1940) (Note A)		$ 1,573,000
Non-negotiable Debt to Affiliated Companies—Open Accounts		403,563
TOTAL LONG TERM DEBT ($121,000 due in 1940)		$ 1,976,563
CURRENT LIABILITIES:		
Traffic and Car-Service Balances Payable		$ 99,238
Audited Accounts and Wages Payable		283,645
Miscellaneous Accounts Payable		375,425
Unmatured Interest Accrued		11,797
Unmatured Rents Accrued		313,308
Other Current Liabilities		10,316
TOTAL CURRENT LIABILITIES (exclusive of tax liability and long term debt due in 1940)		$ 1,093,729
DEFERRED LIABILITIES:		
Due to Carolina, Clinchfield and Ohio Railway to be accounted for at termination of Lease	$3,039,733	
Due to Lessees—Profits to December 31, 1939	424,870	
Other items	272,772	
TOTAL DEFERRED LIABILITIES		$ 3,737,375
UNADJUSTED CREDITS:		
Tax Liability		$ 283,177
Accrued Depreciation:		
Lessees' Equipment	$ 168,856	
Lessor's Equipment	2,942,676	3,111,532
Other Unadjusted Credits		9,405
TOTAL UNADJUSTED CREDITS		$ 3,404,114
TOTAL LIABILITIES		$10,211,781

NOTE B—Continued

Advances:	Amount
Holston Land Company, Incorporated	$146,173
Southport Harbor Company	32,058
Railway Express Agency, Inc.	14,637
The Railroad Credit Corporation	32,141
Black Moutain Railway Company	235,500
Total advances	$460,509

NOTE C—Other Deferred Assets—Other Items:

Uncollected interest on Black Mountain Railway Company indebtedness	$ 66,528
Estimated salvage from cars retired, held for sale	147,760
Cost of spur track built by Duke Power Company to be refunded	208,335
Miscellaneous items	4,529
Total	$427,152

CLINCHFIELD RAILROAD COMPANY (UN

CONDENSED STATE

FOR THE CALENDAR YEARS 1930 TO 1939, INCLUSIVE,

	1930	1931	1932	1933
RAILWAY OPERATING REVENUES:				
Coal and Coke	$2,852,438	$2,750,749	$2,182,328	$2,619,923
Other Freight	2,931,413	2,496,811	1,791,657	2,141,701
Passenger	110,016	66,378	26,818	24,461
All Other	121,947	96,122	58,173	56,094
Total Railway Operating Revenues	$6,015,814	$5,410,060	$4,058,976	$4,842,179
RAILWAY OPERATING EXPENSES:				
Maintenance	$2,195,335	$1,928,464	$1,481,153	$1,499,922
Transportation	1,339,007	1,170,834	836,870	840,256
All Other	464,003	431,211	352,447	340,504
Total Railway Operating Expenses	$3,998,345	$3,530,509	$2,670,470	$2,680,682
NET RAILWAY OPERATING REVENUES	$2,017,469	$1,879,551	$1,388,506	$2,161,497
RAILWAY TAX ACCRUALS (Note C)	624,374	584,692	550,899	521,000
RAILWAY OPERATING INCOME	$1,393,095	$1,294,859	$ 837,607	$1,640,497
Hire of Equipment (Net)—Cr.	765,671	340,882	198,664	263,182
Joint Facility Rents (Net)—Dr.	19,945	14,363	9,551	8,805
NET RAILWAY OPERATING INCOME	$2,138,821	$1,621,378	$1,026,720	$1,894,874
OTHER INCOME	161,863	72,768	33,602	18,502
TOTAL INCOME	$2,300,684	$1,694,146	$1,060,322	$1,913,376
MISCELLANEOUS DEDUCTIONS FROM INCOME	283	304	283	283
INCOME AVAILABLE FOR FIXED CHARGES	$2,300,401	$1,693,842	$1,060,039	$1,913,093
FIXED CHARGES:				
Interest on Funded Debt of Lessor	$1,497,266	$1,474,714	$1,442,457	$1,410,185
Other Interest	31,206	43,619	22,965	9,934
Amortization of Discount on Funded Debt	....	....	....	....
Total	$1,528,472	$1,518,333	$1,465,422	$1,420,119
Dividend Rental	1,000,000	1,000,000	1,000,000	1,000,000
Lessor's Income Taxes (Note C)	211,626	161,308	169,101	206,000
Other Deductions	22,354	21,422	21,227	20,361
TOTAL FIXED CHARGES	$2,762,452	$2,701,063	$2,655,750	$2,646,480
NET INCOME	*$ 462,051*	*$1,007,221*	*$1,595,711*	*$ 733,387*
INCOME OR LOSS TRANSFERRED TO OTHER COMPANIES	....	....	*1,595,711*	*733,387*
INCOME BALANCE TRANSFERRED TO PROFIT AND LOSS	*$ 462,051*	*$1,007,221*	$	$ ....
MAINTENANCE EXPENSES INCLUDE CHARGES FOR DEPRECIATION (Note B)	$ 449,910	$ 451,179	$ 450,303	$ 449,141

Italics denote red figures.

NOTE A—

The figures for the six months ended June 30, 1939 and 1940 are unaudited. They were prepared by the General Auditor of the Clinchfield Railroad Company and are subject to year-end adjustments.

NOTE B—

Charges to Operating Expenses for depreciation of equipment were computed on the cost thereof spread over the estimated life of the equipment.

The percentages of depreciation of various classes of equipment were as follows:

	1930-1934	1935-1937	1938-1940
Locomotives	2%	3.21%	3.21%
Wooden freight-train cars	4%	3.22%	3.00%
Steel and steel underframe freight-train cars	3%		
Passenger-train cars	2%	3.14%	3.14%
Parlor-buffet cars	10%		
Work equipment	4%	2.81%	2.81%

Since January 1, 1935, depreciation has been accrued by the Railroad on equipment at composite percentage rates approved by the Interstate Commerce Commission. No provision has been made for depreciation on leased Road.

INCORPORATED LESSEE ORGANIZATION)

MENT OF INCOME

AND FOR THE SIX MONTHS ENDED JUNE 30, 1939 AND 1940

						Six Months ended June 30, (Note A)	
1934	1935	1936	1937	1938	1939	1939	1940
$2,774,357	$2,732,313	$3,160,705	$3,534,210	$3,036,603	$3,795,045	$1,633,630	$2,582,988
2,327,977	2,473,417	3,043,748	3,217,495	2,754,149	3,373,349	1,615,444	1,786,321
40,818	47,599	54,471	55,539	44,869	39,984	17,432	20,835
61,162	61,629	65,939	72,765	65,097	68,086	33,692	33,404
$5,204,314	$5,314,958	$6,324,863	$6,880,009	$5,900,718	$7,276,464	$3,300,198	$4,423,548
$1,640,721	$1,665,599	$1,890,881	$1,882,265	$1,609,497	$1,731,878	$ 840,802	$ 979,849
1,010,579	1,070,771	1,224,715	1,351,374	1,232,279	1,357,771	647,347	813,902
347,526	350,799	384,936	405,343	431,609	419,827	215,070	211,143
$2,998,826	$3,087,169	$3,500,532	$3,638,982	$3,273,385	$3,509,476	$1,703,219	$2,004,894
$2,205,488	$2,227,789	$2,824,331	$3,241,027	$2,627,333	$3,766,988	$1,596,979	$2,418,654
480,000	461,000	725,979	467,920	591,870	699,854	300,166	416,084
$1,725,488	$1,766,789	$2,098,352	$2,773,107	$2,035,463	$3,067,134	$1,296,813	$2,002,570
328,159	290,751	488,621	446,506	204,488	219,350	88,129	95,506
10,353	10,537	11,024	12,475	2,564	364	*124*	80
$2,043,294	$2,047,003	$2,575,949	$3,207,138	$2,237,387	$3,286,120	$1,385,066	$2,097,996
15,326	12,274	12,237	20,658	24,070	11,395	7,500	6,384
$2,058,620	$2,059,277	$2,588,186	$3,227,796	$2,261,457	$3,297,515	$1,392,566	$2,104,380
274	278	278	278	25	1,938	253	484
$2,058,346	$2,058,999	$2,587,908	$3,227,518	$2,261,432	$3,295,577	$1,392,313	$2,103,896
$1,380,267	$1,354,385	$1,353,350	$1,353,350	$1,150,610	$1,046,000	$ 523,000	$ 511,187
9,641	4,237	49,512	32,516	34,970	40,165	18,303	21,266
....	....	....	2,329	5,629	5,231	....	....
$1,389,908	$1,358,622	$1,402,862	$1,388,195	$1,191,209	$1,091,396	$ 541,303	$ 532,453
1,000,000	1,000,000	1,000,000	1,000,000	1,250,000	1,250,000	625,000	625,000
180,000	180,000	193,700	261,827	208,205	239,630	131,600	130,860
21,581	20,370	19,758	20,624	19,320	18,675	11,620	11,109
$2,591,489	$2,558,992	$2,616,320	$2,670,646	$2,668,734	$2,599,701	$1,309,523	$1,299,422
$ 533,143	*$ 499,993*	*$ 28,412*	$ 556,872	*$ 407,302*	$ 695,876	$ 82,790	$ 804,474
533,143	*499,993*	*28,412*	556,872	*407,302*	695,876	....	....
$	$	$	$	$	$	$ 82,790	$ 804,474
$ 447,818	$ 527,344	$ 511,476	$ 441,759	$ 411,640	$ 397,951	$ 199,000	$ 198,870

NOTE C—

The amounts of Railway Tax Accruals and Lessor's Income Taxes as shown by the books of account for the years 1930, 1931 and 1932 and for the six months ended June 30, 1940 have been restated above in accordance with the classification of accounts of the Interstate Commerce Commission effective during the other periods shown in the above Condensed Statement of Income.

CLINCHFIELD RAILROAD COMPANY (UN

STATEMENT OF PROFIT AND LOSS FOR THE

	1930	1931	1932
CREDITS			
Credit Balance at beginning of year	$2,063,670	$ 790,025	$1,026,044 Dr.
Credits from Retired Road and Equipment	....	....	....
Miscellaneous Credits:			
Debit balance cleared to accounts of Lessees	....	....	1,031,987(A)
Other items	65	212	48
TOTAL	$2,063,735	$ 790,237	$ 5,991
DEBITS			
Debit Balance transferred from Income	$ 462,051	$1,007,221	$ ....
Debits from Retired Road and Equipment	7,697	18,819	2,061
Miscellaneous Debits:			
Surplus distributed to Lessees	803,000	790,026	....
Other items	962	215	3,930
	$1,273,710	$1,816,281	$ 5,991
Credit Balance at End of Year	790,025	1,026,044 Dr.	....
TOTAL	$2,063,735	$ 790,237	$ 5,991

NOTE A—

Includes debit balance of $1,026,044 on January 1, 1932, cleared to Coast Line and L. & N., in compliance with ruling of Interstate Commerce Commission.

Exhibit F

INCORPORATED LESSEE ORGANIZATION)

CALENDAR YEARS 1930 TO 1939, INCLUSIVE

1933	1934	1935	1936	1937	1938	1939
$	$	$	$	$	$	$ ....
....	2,637	....	....	....	....	....
10,735	6,533	12,495	24,308	25,722	19,034	6,142
1,506	29 Dr.	294	45	475	14	8
$ 12,241	$ 9,141	$ 12,789	$ 24,353	$ 26,197	$ 19,048	$ 6,150
$	$	$	$	$	$	$ ....
12,237	4,624	11,644	23,635	25,956	19,034	6,146
....	....	....	....	....	....	....
4	4,517	1,145	718	241	14	4
$ 12,241	$ 9,141	$ 12,789	$ 24,353	$ 26,197	$ 19,048	$ 6,150
....	....	....	....	....	....	....
$ 12,241	$ 9,141	$ 12,789	$ 24,353	$ 26,197	$ 19,048	$ 6,150

ATLANTIC COAST LINE

GENERAL BALANCE SHE

ASSETS

INVESTMENTS:		
Investment in Road and Equipment:		
Road	$197,174,660	
Equipment	68,956,336	
General Expenditures	290,854	$266,421,850
Improvements on Leased Railway Property		507,999
Deposits in Lieu of Mortgaged Property Sold		2,910
Miscellaneous Physical Property		1,963,874
Investments in Affiliated Companies:		
Stocks—Partly Pledged (Note B)	$ 63,434,015	
Bonds (Note C)	4,047,922	
Notes (Note D)	1,554,695	
Advances (Note E)	9,029,311	78,065,943
Other Investments:		
Stocks (Note F)		201,418
TOTAL INVESTMENTS		$347,163,994
CURRENT ASSETS:		
Cash		$ 7,522,165
Special Deposits		747,662
Traffic and Car-Service Balances Receivable		1,535,708
Net Balance Receivable from Agents and Conductors		353,703
Miscellaneous Accounts Receivable		1,389,877
Material and Supplies		3,844,602
Interest and Dividends Receivable		41,275
Other Current Assets		9,732
TOTAL CURRENT ASSETS		$ 15,444,724
DEFERRED ASSETS:		
Working Fund Advances		$ 32,013
Insurance and Other Funds:		
Total Book Assets	$ 1,674,834	
Less Bonds, this Company's Issues (Pledged under Georgia Railroad lease)	575,000	1,099,834
Other Deferred Assets (Note G)		398,609
TOTAL DEFERRED ASSETS		$ 1,530,456
UNADJUSTED DEBITS:		
Total Unadjusted Debits		$ 557,504
Securities Issued or Assumed:		
Par Value of Holdings:		
Unpledged	$ 75,979,145	
Pledged	25,000,000	
TOTAL ASSETS		$364,696,678

NOTE: The above balance sheet does not include Certificates which are joint and several obliga Louisville and Nashville Railroad Company field Railroad Company (unincorporated lessee

For obligations of Atlantic Coast Line Railroad Com on following page.

See Notes on pages 34 and 35 which are an integral

Exhibit G

RAILROAD COMPANY

ET—DECEMBER 31, 1939

LIABILITIES

CAPITAL STOCK:		
Class "A" Richmond and Petersburg Railroad Co. Stock	$ 1,000,000	
Common Stock	81,342,700	
Preferred Stock	196,700	$ 82,539,400
Premiums on Capital Stock		4,836,989
TOTAL CAPITAL STOCK		$ 87,376,389
GOVERNMENTAL GRANTS:		
Grants in Aid of Construction		$ 971,363
LONG TERM DEBT:		
Equipment Trust Obligations ($599,000 due in 1940)		$ 4,040,000
Mortgage Bonds:		
Book Liability ($300,000 due in 1940)	$195,166,145	
Held by or for Company	101,554,145	93,612,000
Ten-Year Collateral Trust Notes		12,000,000
Collateral Trust Bonds		35,000,000
Miscellaneous		135,100
TOTAL LONG TERM DEBT ($899,000 due in 1940)		$144,787,100
CURRENT LIABILITIES:		
Traffic and Car-Service Balances Payable		$ 915,795
Audited Accounts and Wages Payable		4,351,658
Miscellaneous Accounts Payable		1,891,292
Interest Matured Unpaid		205,654
Dividends Matured Unpaid		10,113
Funded Debt Matured Unpaid		23,500
Unmatured Interest Accrued		1,181,516
Unmatured Rents Accrued		20,383
Other Current Liabilities		78,360
TOTAL CURRENT LIABILITIES (exclusive of tax liability, long term debt and deferred liabilities due in 1940)		$ 8,678,271
DEFERRED LIABILITIES:		
Other Deferred Liabilities ($307,241 due in 1940) (Note H)		$ 1,620,838
UNADJUSTED CREDITS:		
Tax Liability		$ 1,714,638
Insurance and Casualty Reserves		1,083,943
Accrued Depreciation—Equipment		31,877,430
Other Unadjusted Credits		298,536
TOTAL UNADJUSTED CREDITS		$ 34,974,547
CORPORATE SURPLUS:		
Additions to Property through Income and Surplus		$ 6,143,968
Profit and Loss—Credit Balance		80,144,202
TOTAL CORPORATE SURPLUS		$ 86,288,170
TOTAL LIABILITIES		$364,696,678

$1,573,000 Clinchfield Railroad Serial Equipment Trust
tions of Atlantic Coast Line Railroad Company and
and are carried as a liability on the books of the Clinch-
organization).

pany under various guaranty agreements see Note A

part of this Balance Sheet.

EXHIBIT G—Continued

NOTE A—

The Coast Line, with other carriers, guarantees the payment of principal and interest of outstanding obligations of other companies, and has other guaranties as follows:

Principal and Interest of Outstanding Obligations Guaranteed:

Name of Company	Principal Amount	Interest Rate	Maturity
JACKSONVILLE TERMINAL COMPANY:			
First and General Mortgage Bonds	$ 100,000	5 %	July 1, 1967
Refunding and Extension Mortgage:			
Series A	2,400,000	5 %	July 1, 1967
Series B	1,100,000	6 %	July 1, 1967
Jointly and severally with Florida East Coast Railway Co., Seaboard Air Line Railway Co., and Southern Railway Co.			
Series C	400,000	4½%	July 1, 1967
Jointly and severally with Receivers of Florida East Coast Railway Co., Receivers of Seaboard Air Line Railway Co., and Southern Railway Co.			
RICHMOND TERMINAL RAILWAY COMPANY:			
First Mortgage Bonds (of which $146,000 are owned by the issuer)	3,380,000	5 %	Jan. 1, 1952
Jointly and severally with Richmond, Fredericksburg & Potomac Railroad Co.			
RICHMOND-WASHINGTON COMPANY:			
Collateral Trust Mortgage Bonds (of which $1,203,000 are owned by the issuer)	10,000,000	4 %	June 1, 1943
Jointly and severally with Pennsylvania Railroad Co., Southern Railway Co., The Chesapeake and Ohio Railway Co., Seaboard Air Line Railway Co., and The Baltimore and Ohio Railroad Co.			
WILMINGTON RAILWAY BRIDGE COMPANY:			
First Mortgage Bonds	217,000	5 %	Apr. 1, 1943
Jointly and severally with Seaboard Air Line Railway Co.			
WINSTON-SALEM SOUTHBOUND RAILWAY COMPANY:			
First Mortgage Bonds	5,000,000	4 %	July 1, 1960
Jointly and severally with Norfolk and Western Railway Co.			
NORFOLK & PORTSMOUTH BELT LINE RAILROAD COMPANY:			
Serial Promissory Notes due in 10 equal annual installments of $70,000 on September 1st in each of the years 1940 to 1949, inclusive	700,000	1½%	1940-1949
Jointly and severally with Southern Railway Co., Pennsylvania Railroad Co., The Chesapeake and Ohio Railway Co., Virginian Railway Co., Receivers of Seaboard Air Line Railway Co., Norfolk and Western Railway Co., and Receivers of Norfolk Southern Railroad Co.			
CAROLINA, CLINCHFIELD AND OHIO RAILWAY:			
Note payable to Reconstruction Finance Corporation, or order	14,150,000	(*)5 %	May 27, 1943
(*) Maximum rate (4% charged in 1938 and 1939).			
Jointly and severally with Louisville and Nashville Railroad Co.			

Other Guaranties:

The Coast Line is sole guarantor of principal of and interest on $720,000 First Mortgage 4½% Bonds of Washington & Vandemere Railroad Company, due February 1, 1947, the property of said Company being leased by the Coast Line.

The Coast Line is also sole guarantor of $5,180,300 par value of Preferred Stock of Atlanta, Birmingham and Coast Railroad Company, which guaranty covers payment of amount equal to dividend at 5 per cent. per annum, payable semi-annually, and in event of any merger, consolidation or dissolution of Atlanta, Birmingham and Coast Railroad Company, redemption of Preferred Stock at 103 per cent. and accrued dividend.

NOTE B—

	Par Value				
INVESTMENTS IN AFFILIATED COMPANIES—STOCKS:	In Treasury	Pledged	Total	Book Value	Extent of Control—Per Cent.
Albany Passenger Terminal Company	$ 49,200	$	$ 49,200	$ 49,200	40.97
Atlanta, Birmingham and Coast Railroad Co.—Preferred	38,400	....	38,400	33,513	....
Atlanta, Birmingham and Coast Railroad Co.—Common (150,000 Shares)	None	....	None	4,248,414	100.00
Atlanta & West Point Railroad Company	48,100	....	48,100	63,746	6.45
Atlanta & West Point Railroad Company—1,107 Shares Option to Georgia Railroad & Banking Co. to Purchase at expiration of Lease of Georgia Railroad	110,700	....	110,700	149,445	
Atlantic & East Coast Terminal Company	12,500	....	12,500	12,500	50.00
The Atlantic Land and Improvement Company	3,000,000	....	3,000,000	3,000,000	100.00
Augusta Union Station Company	37,500	....	37,500	37,500	50.00
Augusta & Summerville Railroad Company	25,000	....	25,000	9,528	12.50
Augusta Belt Railway Company	32,500	....	32,500	32,276	50.00
The Belt Line Railway Co., Montgomery, Ala.	200,000	....	200,000	10,050	100.00
Charleston Union Station Company	25,000	....	25,000	25,000	50.00
Chesapeake Steamship Company	200,000	....	200,000	74,200	33.33
Columbia Union Station Company	75,200	....	75,200	75,200	50.00
Columbia, Newberry & Laurens Railroad Company	365,725	....	365,725	112,011	73.15
East Carolina Railway	55,500	....	55,500	11,832	100.00
Fort Myers Southern Railroad Company	50,000	....	50,000	50,000	100.00
Fruit Growers Express Company	1,861,500	....	1,861,500	1,861,500	22.36
Goldsboro Union Station Company	5,000	....	5,000	5,000	33.33
Jacksonville Terminal Company	93,800	....	93,800	43,801	25.00
596,700 Shares of $100 par value of L. & N. Stock deposited with New York Trust Co., Trustee	....	59,670,000	59,670,000	51,368,221	51.00
3,060 Shares of $100 par value of Louisville Property Co. Stock deposited with New York Trust Co., Trustee	....	306,000	306,000	306,000	51.00
Lexington Terminal Railroad Company	3,300	....	3,300	3,323	50.00
Milledgeville Railway Company	30,000	....	30,000	17,500	50.00
Monroe Railroad Company	50,000	....	50,000	6,246	50.00
Moore Haven & Clewiston Railway Company	50,000	....	50.000	50,000	100.00
Norfolk & Portsmouth Belt Line Railroad Co.	7,200	....	7,200	7,708	12.50
North Charleston Terminal Company	35,000	....	35,000	35,000	33.33
The Peninsular & Occidental Steamship Company	748,000	....	748.000	997	50.00
Railway Express Agency, Inc. (20 Shares)	None	....	None	2,000	2.00

EXHIBIT G—Continued

NOTE B—Continued

	Par Value In Treasury	Par Value Pledged	Par Value Total	Book Value	Extent of Control—Per Cent.
Richmond Terminal Railway Company	$ 25,000	$	$ 25,000	$ 25,000	50.00
Richmond-Washington Company	667,400	....	667,400	667,400	16.66
Rockingham Railroad Company	72,000	....	72,000	59,749	100.00
Savannah River Terminal Company	33,400	....	33,400	33,400	33.33
Savannah Union Station Company	100,000	....	100,000	5,072	33.33
Tampa Southern Railroad Company	200,000	....	200,000	200,000	100.00
Tampa Union Station Company	10,000	....	10,000	10,000	33.33
Virginia & Carolina Southern Railroad Company	140,300	....	140,300	88,483	99.50
Washington & Vandemere Railroad Company	125,000	....	125,000	1,000	100.00
Wilmington Railway Bridge Company	20,000	....	20,000	20,000	50.00
6,221 Shares of $100 par value of Winston-Salem Southbound Railway Co. Stock deposited with United States Trust Co. of New York, Trustee	....	622,100	622,100	622,100	50.00
Winston-Salem Southbound Railway Company	100	....	100	100	
	$8,602,325	$60,598,100	$69,200,425	$63.434,015	

NOTE C—

INVESTMENTS IN AFFILIATED COMPANIES—BONDS:

	Principal Amount	Book Value
The Atlantic Land and Improvement Company	$ 666,000	$ 599,400
The Belt Line Railway Co., Montgomery, Ala.	245,000	230,706
Charleston Union Station Company	125,000	125,000
East Carolina Railway	300,000	280,911
Goldsboro Union Station Company	28,000	26,015
Monroe Railroad Company	35,000	35,000
Moore Haven & Clewiston Railway Company	50,000	50,000
The Peninsular & Occidental Steamship Company	2,628,000	1,978,000
Rockingham Railroad Company	250,000	237,500
Virginia & Carolina Southern Railroad Company	524,000	485,390
	$4,851,000	$4,047,922

NOTE D—

INVESTMENTS IN AFFILIATED COMPANIES—NOTES:

	Principal Amount	Book Value
The Atlantic Land and Improvement Co.	$ 10,000	$ 10,000
Augusta & Summerville Railroad Company	7,543	7,543
Chesapeake Steamship Company (Certificates of Indebtedness)	71,600	12,185
Chesapeake Steamship Company	54,348	27,174
Columbia Union Station Company	35	35
Georgia Railroad—Lessee Organization	139,933	139,933
Rockingham Railroad Company	52,052	52,052
Savannah Union Station Company	3,749	3,749
Tampa Southern Railroad Company	978,000	978,000
Washington & Vandemere Railroad Company	324,024	324,024
	$1,641,284	$1,554,695

NOTE E—

INVESTMENTS IN AFFILIATED COMPANIES—ADVANCES:

	Amount
Atlantic & East Coast Terminal Company	$ 291,042
The Belt Line Railway Co., Montgomery, Ala.	4,318
Charleston Union Station Company	6,160
Clinchfield Railroad Company—Lessee Organization	197,131
East Carolina Railway	136,776
Fort Myers Southern Railroad Company	1,622,938
Georgia Railroad—Lessee Organization	2,452,021
Georgia Railroad—Lessee Organization (A&B)	10,500
Goldsboro Union Station Company	779
Goldsboro Union Station Company (Working Fund)	1,443
Jacksonville Terminal Company (Working Fund)	7,500
Jacksonville Terminal Company (Beaver Street Viaduct)	4,000
Jacksonville Terminal Company	20,791
Milledgeville Railway Company	5,719
Moore Haven & Clewiston Railway Company	178,514
The Railroad Credit Corporation	171,072
Railway Express Agency, Inc.	292,745
Richmond Terminal Railway Company	7,500
Savannah River Terminal Company	26,023
Savannah River Terminal Company (Working Fund)	200
Savannah Union Station Company (Working Fund)	3,000
Savannah Union Station Company	13,629
Tampa Southern Railroad Company	3,094,609
Tampa Union Station Company (Working Fund)	8,757
Washington & Vandemere Railroad Company	417,535
Wilmington Railway Bridge Company	54,609
	$9,029,311

NOTE F—

OTHER INVESTMENTS—STOCK:

	Par Value In Treasury	Par Value Pledged	Par Value Total	Book Value
Central Railroad Company of South Carolina	$ 62,000		$ 62,000	$ 67,200
Clewiston Realty & Development Corporation	2,339		2,339	1,170
Kansas, Oklahoma & Gulf Railway Company	100		100	100
Pan American Airways Corporation	50,000		50,000	75,000
South Carolina Pacific Railway Company	82,200		82,200	2,371
United States Sugar Corporation	9,356		9,356	55,577
	$205,995		$205,995	$201,418

NOTE G—

Includes $212,435 Clinchfield Railroad Company—Lease Account—Operating Profit.

NOTE H—

Includes $1,225,034 due The Pennsylvania Company for Insurances on Lives and Granting Annuities, Assignee, for balance due on purchase price of streamline trains, and $217,636 due The Safety Car Heating and Lighting Co. for balance due on purchase of air-conditioning equipment.

ATLANTIC COAST LINE

CONDENSED STATE
FOR THE CALENDAR YEARS 1930 TO 1939, INCLUSIVE, AND

	1930	1931	1932	1933
RAILWAY OPERATING REVENUES:				
Freight	$46,428,030	$41,390,424	$28,669,066	$29,660,525
Passenger	10,538,341	7,488,762	4,622,457	4,223,523
All Other	6,053,586	5,208,819	3,977,041	4,024,895
Total Railway Operating Revenues	$63,019,957	$54,088,005	$37,268,564	$37,908,943
RAILWAY OPERATING EXPENSES:				
Maintenance	$22,300,572	$18,819,368	$14,014,616	$12,294,598
Transportation	22,643,245	20,105,138	14,795,163	13,764,828
All Other	4,741,643	4,263,965	3,461,098	3,068,204
Total Railway Operating Expenses	$49,685,460	$43,188,471	$32,270,877	$29,127,630
NET RAILWAY OPERATING REVENUES	$13,334,497	$10,899,534	$ 4,997,687	$ 8,781,313
RAILWAY TAX ACCRUALS	5,525,000	4,775,000	3,975,000	3,617,000
UNCOLLECTIBLE RAILWAY REVENUES	29,851	13,127	13,599	12,264
RAILWAY OPERATING INCOME	$ 7,779,646	$ 6,111,407	$ 1,009,088	$ 5,152,049
Hire of Equipment (Net)—Dr.	557,378	1,395,248	944,399	876,843
Joint Facility Rents (Net)—Cr.	19,035	31,951	43,510	24,606
NET RAILWAY OPERATING INCOME	$ 7,241,303	$ 4,748,110	$ 108,199	$ 4,299,812
OTHER INCOME:				
Dividend Income	$ 4,894,056	$ 3,268,496	$ 498,850	$ 370,354
Separately Operated Properties (Clinchfield R. R. Co.)—Profit (Notes A and E)	401,500	395,013	....	....
Other Income	1,322,255	1,049,474	839,451	706,638
Total Other Income	$ 6,617,811	$ 4,712,983	$ 1,338,301	$ 1,076,992
TOTAL INCOME	$13,859,114	$ 9,461,093	$ 1,446,500	$ 5,376,804
MISCELLANEOUS DEDUCTIONS FROM INCOME:				
Separately Operated Properties (Clinchfield R. R. Co.)—Loss (Notes B and E)	$	$	$ 800,827	$ 372,061
Other Deductions	726,082	619,472	571,679	701,785
Total Miscellaneous Deductions	$ 726,082	$ 619,472	$ 1,372,506	$ 1,073,846
INCOME AVAILABLE FOR FIXED CHARGES	$13,133,032	$ 8,841,621	$ 73,994	$ 4,302,958
FIXED CHARGES:				
Rent for Leased Roads and Equipment	$ 82,576	$ 82,576	$ 82,576	$ 89,465
Interest on Funded Debt	6,743,156	6,682,883	6,619,908	6,517,513
Interest on Unfunded Debt	52,709	55,304	56,739	81,768
TOTAL FIXED CHARGES	$ 6,878,441	$ 6,820,763	$ 6,759,223	$ 6,688,746
NET INCOME	$ 6,254,591	$ 2,020,858	*$ 6,685,229*	*$ 2,385,788*
Dividend Appropriations of Income	$ 2,470,281	$	$	$ ....
Income applied to Sinking and Other Reserve Funds	28,214	29,367	29,689	31,103
Income appropriated for Investment in Physical Property	58,348	48,490	....	....
Total Appropriations of Income	$ 2,556,843	$ 77,857	$ 29,689	$ 31,103
INCOME BALANCE TRANSFERRED TO PROFIT AND LOSS	$ 3,697,748	$ 1,943,001	*$ 6,714,918*	*$ 2,416,891*
MAINTENANCE EXPENSES INCLUDE CHARGES FOR DEPRECIATION (Note C)	$ 2,288,874	$ 2,288,899	$ 2,266,647	$ 2,233,712

Italics denote red figures.

NOTE A—

Consists of the Coast Line's proportion of distributions made by the Clinchfield Railroad Company to the Coast Line and the L. & N., as Lessees, on account of income and profit and loss credits as follows: in 1930, $401,500 paid in C. C. & O. First and Consolidated Mortgage 5% Bonds, Series B; in 1931, $395,013 paid in non-interest bearing note of the C. C. & O. The amounts of $265,575 for 1937 and $344,867 for 1939 consist of the Coast Line's proportion of profit of the Clinchfield Railroad Company for those years.

NOTE B—

Consists of the Coast Line's proportion of losses of the Clinchfield Railroad Company for the years 1932, 1933, 1934, 1935, 1936, and 1938. The Coast Line's proportion, $513,022, of the debit balance in profit and loss account of Clinchfield Railroad Company on December 31, 1931 was charged to Profit and Loss in 1932.

NOTE C—

For the years 1930-1934, inclusive, the Coast Line charged to its Operating Expenses depreciation on its equipment at the following rates: steam locomotives, 3%; freight train cars, 3%; passenger train cars, 2%; dining cars, 5%; work equipment, 2%; floating equipment, 2%. Since January 1, 1935, depreciation has been

Exhibit H

RAILROAD COMPANY

MENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 1939 AND 1940

						Six Months Ended June 30, (Note D)	
1934	1935	1936	1937	1938	1939	1939	1940
$29,791,282	$28,674,586	$31,638,449	$34,890,819	$32,410,476	$35,566,926	$19,018,904	$18,469,278
5,035,918	5,561,344	6,762,961	7,789,061	6,916,346	6,505,631	4,363,206	5,134,266
4,706,627	4,796,952	5,191,803	5,292,300	4,837,203	5,026,730	2,737,249	2,672,788
$39,533,827	$39,032,882	$43,593,213	$47,972,180	$44,164,025	$47,099,287	$26,119,359	$26,276,332
$12,764,244	$12,911,219	$13,137,968	$14,308,993	$13,673,199	$14,059,389	$ 6,944,323	$ 7,908,607
14,879,800	15,751,476	17,040,412	18,631,096	17,962,980	18,671,862	9,886,309	10,508,764
3,253,491	3,400,980	3,593,409	3,892,712	3,855,609	3,940,529	2,061,651	2,251,960
$30,897,535	$32,063,675	$33,771,789	$36,832,801	$35,491,788	$36,671,780	$18,892,283	$20,669,331
$ 8,636,292	$ 6,969,207	$ 9,821,424	$11,139,379	$ 8,672,237	$10,427,507	$ 7,227,076	$ 5,607,001
3,555,000	3,630,000	4,465,000	4,825,000	4,625,000	4,390,000	2,950,000	2,950,000
12,878	....	....	....	....	....	....	....
$ 5,068,414	$ 3,339,207	$ 5,356,424	$ 6,314,379	$ 4,047,237	$ 6,037,507	$ 4,277,076	$ 2,657,001
795,345	775,260	961,540	1,432,581	1,711,141	2,334,964	1,594,627	1,553,221
16,488	14,816	20,870	56,976	54,655	79,329	29,433	39,271
$ 4,289,557	$ 2,578,763	$ 4,415,754	$ 4,938,774	$ 2,390,751	$ 3,781,872	$ 2,711,882	$ 1,143,051
$ 2,164,190	$ 1,911,902	$ 4,214,357	$ 4,004,078	$ 2,743,938	$ 3,573,528	$ 816,839	$ 1,056,017
....	....	....	265,575	....	344,867	....	....
622,698	533,091	618,072	577,309	505,638	432,828	219,484	181,893
$ 2,786,888	$ 2,444,993	$ 4,832,429	$ 4,846,962	$ 3,249,576	$ 4,351,223	$ 1,036,323	$ 1,237,910
$ 7,076,445	$ 5,023,756	$ 9,248,183	$ 9,785,736	$ 5,640,327	$ 8,133,095	$ 3,748,205	$ 2,380,961
$ 269,838	$ 256,244	$ 26,360	$	$ 213,168	$	$	$ ....
753,838	707,980	816,758	874,558	835,072	959,983	431,918	392,359
$ 1,023,676	$ 964,224	$ 843,118	$ 874,558	$ 1,048,240	$ 959,983	$ 431,918	$ 392,359
$ 6,052,769	$ 4,059,532	$ 8,405,065	$ 8,911,178	$ 4,592,087	$ 7,173,112	$ 3,316,287	$ 1,988,602
$ 89,915	$ 90,425	$ 86,373	$ 88,293	$ 83,265	$ 83,303	$ 38,938	$ 38,938
6,185,771	6,308,167	6,305,372	6,289,441	6,297,362	6,216,515	3,133,336	3,013,446
272,561	190,395	98,165	79,303	69,910	69,220	59,256	79,063
$ 6,548,247	$ 6,588,987	$ 6,489,910	$ 6,457,037	$ 6,450,537	$ 6,369,038	$ 3,231,530	$ 3,131,447
$ 495,478	*$ 2,529,455*	$ 1,915,155	$ 2,454,141	*$ 1,858,450*	$ 804,074	$ 84,757	*$ 1,142,845*
$	$	$	$	$	$	$	$ ....
31,877	29,843	33,617	29,869	31,195	30,594	15,134	14,904
....	....	....	....	....	....	....	....
$ 31,877	$ 29,843	$ 33,617	$ 29,869	$ 31,195	$ 30,594	$ 15,134	$ 14,904
$ 527,355	*$ 2,559,298*	$ 1,881,538	$ 2,424,272	*$ 1,889,645*	$ 773,480	$ 69,623	*$ 1,157,749*
$ 2,060,842	$ 2,229,948	$ 2,109,240	$ 2,019,862	$ 2,093,219	$ 2,071,329	$ 1,048,365	$ 1,022,950

accrued by the Coast Line on its equipment at the following composite rates developed under Docket 15,100, approved by the Interstate Commerce Commission: steam locomotives, 3%; freight train cars, 3%; passenger train cars, 2.7%; work equipment (first cycle), 2.6%; (second cycle), 7.1%; floating equipment, 2%.

No provision has been made for depreciation of Road.

NOTE D—

The figures for the six months ended June 30, 1939 and 1940 are unaudited. They were prepared by the Comptroller of the Coast Line and are subject to year-end adjustments. These figures do not include the amount of the Coast Line's proportion of the profit from operations of the Clinchfield Railroad Company, after deducting the Coast Line's proportion of rent paid under the Lease described on page 4. The Coast Line's proportion of such profit was $40,656 for the six months ended June 30, 1939 and $400,586 for the six months ended June 30, 1940.

NOTE E—

The operating profits or losses of Georgia Railroad are not included in the above statement.

ATLANTIC COAST LINE

STATEMENT OF PROFIT AND LOSS FOR THE

Credits	1930	1931	1932
Credit Balance at beginning of Year	$ 97,631,216	$95,678,170	$93,470,328
Credit Balance transferred from Income	3,697,748	1,943,001	Dr. 6,714,918
Donations—Estimated value of land and material donated for Transportation Services (Industry Tracks)	206,507	29,661	11,661
Credits from Retired Road and Equipment	1,293	Dr. 34	210
Delayed Income Credits	....	282,886	....
Unrefundable Overcharges	3,423	2,274	2,346
Miscellaneous Credits	238,160	203,587	16,823
Total	$101,778,347	$98,139,545	$86,786,450
Debits			
Dividend appropriations of Surplus:			
Common Stock	$ 5,763,989	$ 4,528,849	$ ....
Preferred Stock	9,835	9,835	4,917
Surplus appropriated for Investment in Physical Property	216,755	29,661	24,146
Debt Discount Extinguished through Surplus (Note A)	....	....	....
Debits from Retired Road and Equipment	50,281	57,105	37,412
Miscellaneous Debits (Note B)	59,317	43,767	136,307
Delayed Income Debits:			
This Company's one-half proportion of $1,026,044 Debit Balance in Profit and Loss Account of Clinchfield Railroad Company on December 31, 1931	....	....	513,022
Loss on retired equipment, charged to this account by authority of Interstate Commerce Commission	....	....	....
	$ 6,100,177	$ 4,669,217	$ 715,804
Credit Balance at End of Year	95,678,170	93,470,328	86,070,646
Total	$101,778,347	$98,139,545	$86,786,450

NOTE A—

It has been the policy of the Coast Line to charge debt discount and expense directly to profit and loss at the time the debt was incurred, instead of charging the same to income over the life of the indebtedness.

NOTE B—

Loss on sale of second-hand rails included as follows: 1933, $564,989; 1934, $245,330; 1935, $41,117; 1936, $23,643.

NOTE C—

Includes loss on investment in stock and bonds of Elberton & Eastern Railroad Company, $217,191.

Exhibit 1

RAILROAD COMPANY

CALENDAR YEARS 1930 TO 1939, INCLUSIVE

1933	1934	1935	1936	1937	1938	1939
$86,070,646	$83,202,597	$81,782,550	$78,479,874	$78,554,030	$80,473,941	$78,277,843
Dr. 2,416,891	Dr. 527,355	Dr. 2,559,298	1,881,538	2,424,272	Dr. 1,889,645	773,480
11,511	4,364	567	Dr. 5,093	13,268	5,953	3,731
5,305	119	834	4,196	4,759	4,939	5,593
26,203	....	....	....	1,368,781(E)	....	1,199,775(F)
1,234	3,901	3,149	....	....	....	....
230,948	27,972	85,648	110,555	33,646	34,201	251,238
$83,928,956	$82,711,598	$79,313,450	$80,471,070	$82,398,756	$78,629,389	$80,511,660
$	$	$	$ 823,427	$ 1,235,141	$	$ ....
....	4,917	9,835	9,835	9,835	9,835	4,918
48,396	50,922	128,414	481,507	645,184	129,632	253,272
....	....	355,256	....	....	114,318	....
26,300	102,253	47,106	292,517	31,722	51,272	51,464
568,482	490,920(C)	292,965(D)	309,754	2,933	46,489	57,804
....	....	....	....	....	....	....
83,181	280,036	....	....	....	....	....
$ 726,359	$ 929,048	$ 833,576	$ 1,917,040	$ 1,924,815	$ 351,546	$ 367,458
83,202,597	81,782,550	78,479,874	78,554,030	80,473,941	78,277,843	80,144,202
$83,928,956	$82,711,598	$79,313,450	$80,471,070	$82,398,756	$78,629,389	$80,511,660

NOTE D—

Includes uncollectible balance due by Northwestern Railroad Company of South Carolina, $165,338.

NOTE E—

Consists of:

(1) Cancellation of taxes accrued during year 1936 under Railroad Tax Act of 1935, $618,781; and
(2) Additional division of revenues on citrus fruit under I. C. C. docket No. 24069, $750,000.

NOTE F—

Adjustment of over-accruals in prior years for property taxes, State of Florida.

LOUISVILLE AND NASHVILLE

GENERAL BALANCE SHEET—

ASSETS

INVESTMENTS:		
Investment in Road and Equipment:		
Road	$298,638,388	
Equipment	144,472,777	$443,111,165
Improvements on Leased Railway Property		2,340,777
Sinking Funds:		
Total Book Assets	$ 1,560,999	
Less Bonds, this Company's issues	41,000	1,519,999
Deposits in lieu of Mortgaged Property Sold		2,131
Miscellaneous Physical Property		2,363,134
Investments in Affiliated Companies:		
Stocks—Partly Pledged (Note B)	$ 19,493,381	
Bonds ($770,241 Pledged)	786,885	
Notes (Includes $794,207 Notes of Georgia Railroad, Lessee Organization)	815,750	
Advances (Note C)	4,797,435	25,893,451
Other Investments:		
Stocks—Partly Pledged (Note D)	$ 2,011,068	
Bonds—Partly Pledged (Note E)	1,845,789	
Notes (Note F)	1,851,254	
Miscellaneous	5,552	5,713,663
TOTAL INVESTMENTS		$480,944,320
CURRENT ASSETS:		
Cash		$ 31,042,100
Time Drafts and Deposits		22,500
Special Deposits		118,040
Loans and Bills Receivable		1,153,228
Traffic and Car-Service Balances Receivable		2,757,241
Net Balance Receivable from Agents and Conductors		559,065
Miscellaneous Accounts Receivable		1,573,378
Material and Supplies		8,903,745
Interest and Dividends Receivable		87,231
Rents Receivable		73,002
Other Current Assets		217,695
TOTAL CURRENT ASSETS		$ 46,507,225
DEFERRED ASSETS:		
Working Fund Advances		$ 47,268
Insurance and Other Funds (Pledged):		
Total Book Assets	$ 500,005	
Less Bonds, this Company's Issues (Pledged under Georgia Railroad lease)	500,000	5
Other Deferred Assets (Note G)		1,533,744
Southern Railway Co.'s Liability for Louisville and Nashville-Southern, Monon Collateral, 4% Joint Bonds (See contra)		5,913,500
TOTAL DEFERRED ASSETS		$ 7,494,517
UNADJUSTED DEBITS:		
Rents and Insurance Premiums Paid in Advance		$ 3,395
Other Unadjusted Debits		3,137,673
TOTAL UNADJUSTED DEBITS		$ 3,141,068
Securities Issued or Assumed:		
Par Value of Holdings—		
Unpledged	$ 66,574,500	
TOTAL ASSETS		$538,087,130

---

* The long term debt of $69,681,000 due in 1940 consisted of
Cent. Mortgage Bonds, due July 1, 1940, and $465,000 of
amount of the Unified Mortgage Bonds were extended,
and $30,000,000 to January 1, 1960 with annual interest at
remaining $9,216,000 of Unified Mortgage Bonds were

NOTE: The above balance sheet does not include $1,573,000
are joint and several obligations of the Louisville and
Company, and are carried as a liability on the books
organization).

For obligations of Louisville and Nashville Railroad Company
See Notes on pages 42 and 43 which are an integral part of

RAILROAD COMPANY

DECEMBER 31, 1939

Exhibit J

LIABILITIES

CAPITAL STOCK:		
Capital Stock		$117,000,000
Premium on Capital Stock		12,117
TOTAL CAPITAL STOCK		$117,012,117
GOVERNMENTAL GRANTS:		
Grants in Aid of Construction		$ 898,202
LONG TERM DEBT:		
Funded Debt Unmatured:		
Book Liability	$288,997,030	
Held by or for this Company	67,115,500	
Actually Outstanding		$221,881,530
Louisville and Nashville-Southern, Monon Collateral, 4% Joint Bonds—Southern Railway Co.'s Proportion (See contra)		5,913,500
Non-negotiable Debt to Affiliated Companies—Open Accounts		92,595
TOTAL LONG TERM DEBT ($69,681,000 due in 1940)*		$227,887,625
CURRENT LIABILITIES:		
Traffic and Car-Service Balances Payable		$ 433,306
Audited Accounts and Wages Payable		5,643,095
Miscellaneous Accounts Payable		734,845
Interest Matured Unpaid		1,689,857
Dividends Matured Unpaid		79,350
Funded Debt Matured Unpaid		7,000
Unmatured Interest Accrued		1,423,127
Unmatured Rents Accrued		55,774
Other Current Liabilities		480,760
TOTAL CURRENT LIABILITIES (exclusive of tax liability and long term debt due in 1940)		$ 10,547,114
DEFERRED LIABILITIES:		
Other Deferred Liabilities (Note H)		$ 2,881,267
UNADJUSTED CREDITS:		
Tax Liability		$ 2,861,225
Premium on Funded Debt		80,273
Accrued Depreciation—Road		17,929,236
Accrued Depreciation—Equipment		73,649,666
Accrued Depreciation—Miscellaneous Physical Property		40,125
Other Unadjusted Credits		4,229,292
TOTAL UNADJUSTED CREDITS		$ 98,789,817
CORPORATE SURPLUS:		
Additions to Property through Income and Surplus		$ 3,328,354
Sinking Fund Reserves		40,965
Appropriated Surplus not Specifically Invested—Reserve for Doubtful Accounts		280,074
Total Appropriated Surplus		$ 3,649,393
Profit and Loss—Balance		76,421,595
TOTAL CORPORATE SURPLUS		$ 80,070,988
TOTAL LIABILITIES		$538,087,130

$69,216,000 principal amount of Unified Fifty Year Four Per Equipment Trust Obligations. In 1940, $60,000,000 principal $30,000,000 to January 1, 1950 with annual interest at 3½%, 4%. Concurrently sufficient funds for the payment of the deposited with the Trustee for the Unified Mortgage.

Clinchfield Railroad Serial Equipment Trust Certificates, which Nashville Railroad Company and Atlantic Coast Line Railroad of the Clinchfield Railroad Company (unincorporated lessee

under various guaranty agreements see Note A on following page.
this Balance Sheet.

NOTE A—

The L. & N., with other carriers, guarantees the payment of principal and interest of outstanding obligations of other companies, and has other guaranties as follows:

Principal and Interest of Outstanding Obligations Guaranteed:

Name of Company	Principal Amount	Interest Rate	Maturity
LOUISVILLE AND NASHVILLE TERMINAL COMPANY:			
First Mortgage Bonds	$ 2,601,000.00†	4 %	Dec. 1, 1952
Jointly and severally with The Nashville, Chattanooga & St. Louis Railway.			
†$101,000.00 owned by L. & N.			
MEMPHIS UNION STATION COMPANY:			
First Mortgage Bonds	2,500,000.00	5 %	Nov. 1, 1959
Jointly and severally with The Nashville, Chattanooga & St. Louis Railway, Southern Railway Co., St. Louis, Iron Mountain and Southern Railway Co., and St. Louis Southwestern Railway Co.			
THE CINCINNATI UNION TERMINAL COMPANY:			
First Mortgage Bonds:			
Series D	$24,000,000.00	3½%	May 1, 1971
Series E	11,970,000.00	3⅜%	Feb. 1, 1969

In addition to the guarantee of principal and interest, the sinking fund payments on the Series D and E bonds are also guaranteed.

Joint and several guarantors, along with the L. & N., are: The Baltimore and Ohio Railroad Co., The Chesapeake and Ohio Railway Co., The Cincinnati, New Orleans and Texas Pacific Railway Co., The Cleveland, Cincinnati, Chicago and St. Louis Railway Co., Norfolk and Western Railway Co., and The Pennsylvania Railroad Co.

Name of Company	Principal Amount	Interest Rate	Maturity
CAROLINA, CLINCHFIELD AND OHIO RAILWAY:			
Note payable to Reconstruction Finance Corporation, or order	$14,150,000.00	†5 %	May 27, 1943
†Maximum rate (4% charged in 1938 and 1939).			
Jointly and severally with Coast Line.			

Other Guaranties:

TERMINAL RAILROAD ASSOCIATION OF ST. LOUIS:

The L. & N. and 14 other carriers have agreed that the tariff rates of the Terminal Association shall be so fixed by it as to produce at all times sufficient revenue to enable it punctually to meet interest on all bonds of the Association at any time outstanding, sinking fund payments on its General Mortgage Refunding Bonds and its Refunding and Improvement Mortgage Bonds, and rentals, taxes, and all expenses of every nature incurred in the maintenance, operation, repair and renewal of its system and properties and every part thereof, and each has agreed to pay its proportion of any deficiency. In addition, the L. & N., and said 14 other carriers, have agreed to guarantee (the obligation of the L. & N. being one-sixteenth thereof only), the prompt payment as and when due of all interest on and sinking fund payments for the General Mortgage Refunding Bonds and Refunding and Improvement Mortgage Bonds of the Terminal Association. The Terminal Association bonds outstanding as of December 31, 1939 were: $5,000,000 First Consolidated Gold 5% Bonds, due August 1, 1944; $34,600,000 General Mortgage Refunding 4% Bonds, due January 1, 1953 and $6,947,000 Refunding and Improvement Mortgage 3⅜% Bonds, Series B, due July 1, 1974.

LEXINGTON UNION STATION COMPANY:

The L. & N., The Chesapeake and Ohio Railway Company and the Lexington and Eastern Railway Company jointly and severally guarantee (1) payment of the dividend of 4% per annum payable semi-annually on the cumulative preferred stock of Lexington Union Station Company and (2) that, upon dissolution of that company, the holders of such stock shall receive par value ($100 per share), and (3) in the event of the retirement of such stock at the option of the company, that the holders shall receive the amount fixed by the articles of incorporation of such company.

Amount of Preferred Stock Issued	$390,600
Owned by L. & N.	1,700
Outstanding	$388,900

NOTE B—

INVESTMENTS IN AFFILIATED COMPANIES—STOCKS:	Par Value			Book Value (Cost)	Extent of Control—Per Cent.
	In Treasury	Pledged	Total		
Gulf Transit Company	$ 150.00	$ 8,080.00	$ 8,230.00	$ 82,300.00	100.00
Atlanta and West Point Rail Road Company	....	42,600.00	42,600.00	213,210.00	6.22
Atlanta and West Point Rail Road Company (option to Georgia Rail Road and Banking Co. to purchase at $135 per share at termination of lease of Georgia Railroad)	....	110,600.00	110,600.00		
Augusta & Summerville Railroad Company	25,000.00	....	25,000.00	9,527.50	12.50
Augusta Belt Railway Company	32,500.00	....	32,500.00	32,275.67	50.00
Augusta Union Station Company	12,500.00	....	12,500.00	12,500.00	16.67
Central Transfer Railway & Storage Company	900.00	24,100.00	25,000.00	11,354.65	50.00
*Chicago, Indianapolis and Louisville Railway Company, Preferred	....	1,936,700.00	1,936,700.00	6,008,533.62	44.13
*Chicago, Indianapolis and Louisville Railway Company, Common	5,000.00	4,898,450.00	4,903,450.00		
Cincinnati Union Terminal Company	500,000.00	....	500,000.00	500,000.00	14.28
Fruit Growers Express Company	208,700.00	164,200.00	372,900.00	172,400.00	4.52
Lexington Union Station Company, Preferred	....	1,700.00	1,700.00	1,700.00	....
Lexington Union Station Company, Common	600.00	9,400.00	10,000.00	10.00†	66.67

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* In reorganization under Section 77 of the Federal Bankruptcy Act as amended.

† Nominal value.

EXHIBIT J—Continued

NOTE B—Continued

INVESTMENTS IN AFFILIATED COMPANIES—STOCKS:

	Par Value				
	In Treasury	Pledged	Total	Book Value (Cost)	Extent of Control—Per Cent.
Lexington Terminal Railroad Company of Georgia	$ 3,300.00	$	$ 3,300.00	$ 3,300.00	50.00
Louisville and Nashville Terminal Company	500.00	99,500.00	100,000.00	20.00†	100.00
Louisville, Henderson & St. Louis Railway Company, Preferred	114,702.53	1,591,462.19	1,706,164.72	645,083.82	92.52
Louisville, Henderson & St. Louis Railway Company, Common	254,929.00	1,740,071.00	1,995,000.00	659,074.93	
Memphis Union Station Company	100.00	....	100.00	5.00†	20.00
Missouri & Illinois Bridge & Belt Railroad Company	1,000.00	12,000.00	13,000.00	13,000.00	9.09
Milledgeville Railway Company	30,000.00	....	30,000.00	17,500.00	50.00
Monroe Railroad Company	50,000.00	....	50,000.00	5.00†	50.00
The Nashville, Chattanooga & St. Louis Railway	1,600.00	18,373,100.00	18,374,700.00	10,904,212.25	71.78
Railway Express Agency, Inc. (20 shares)	None	....	None	2,000.00	2.00
Terminal Railroad Association of St. Louis	200.00	205,600.00	205,800.00	10.00†	6.25
The Carrollton Railroad	75,000.00	....	75,000.00	75,000.00	100.00
Woodstock & Blocton Railway Company	600.00	119,400.00	120,000.00	120,348.47	50.00
Long Branch Coal Railroad Company	50,000.00	....	50,000.00	10.00†	100.00
Louisville and Nashville Railroad Company of South Carolina	10,000.00	....	10,000.00	10,000.00	100.00
Total	$1,377,281.53	$29,336,963.19	$30,714,244.72	$19,493,380.91	

† Nominal value.

NOTE C—

INVESTMENTS IN AFFILIATED COMPANIES—ADVANCES:

	Amount
The Cincinnati Union Terminal Company	$ 5,897.10
Long Branch Coal Railroad Company	49,564.46
Milledgeville Railway Company	5,719.08
Louisville and Nashville Terminal Company	376,301.65
Georgia Railroad—Lessee Organization	2,462,520.73
Woodstock & Blocton Railway Company	12,262.64
Central Transfer Railway & Storage Company	2,206.83
Memphis Union Station Company	28,033.35
Railway Express Agency, Inc	292,745.36
The Railroad Credit Corporation	417,669.41
Clinchfield Railroad Company—Lessee Organization	197,130.74
*Chicago, Indianapolis and Louisville Railway Company	947,383.78
Total	$4,797,435.13

* In reorganization under Section 77 of the Federal Bankruptcy Act as amended.

NOTE D—

OTHER INVESTMENTS—STOCKS:

	Par Value			
	In Treasury	Pledged	Total	Book Value (Cost)
Cincinnati Inter-Terminal Railroad Company, Preferred	$	$ 87,500.00	$ 87,500.00	$ 87,500.00
Elkton and Guthrie Railroad Company	....	17,275.00	17,275.00	15,175.00
Nashville and Decatur Railroad Company	1,000.00	1,757,850.00	1,758,850.00	1,745,723.49
Kentucky Public Elevator Company, Common	500.00	36,800.00	37,300.00	37,439.50
Kentucky Public Elevator Company, Preferred	25,000.00	100,000.00	125,000.00	125,000.00
Memphis Cotton Exchange Realty Company, Common (20 shares)	None	....	None	5.00†
Memphis Cotton Exchange Realty Company, Preferred	2,000.00	....	2,000.00	5.00†
Mobile Cotton Exchange	200.00	....	200.00	200.00
Exchange Building Company, Common (25 shares)	None	....	None	10.00†
Barker Straight Creek Coal Mining Company (129 shares)	None	....	None	10.00†
Total	$ 28,700.00	$1,999,425.00	$2,028,125.00	$2,011,067.99

† Nominal value.

NOTE E—

OTHER INVESTMENTS—BONDS:

	Principal Amount			
	In Treasury	Pledged	Total	Book Value (Cost)
*Cairo & Thebes Railroad Co., First Mortgage 4%	$	$1,699,000.00	$1,699,000.00	$1,741,000.00
Elkton and Guthrie Railroad Company, First Mortgage 5%	8,000.00	....	8,000.00	8,000.00
L. & N.-Southern, Monon Collateral, 4% Joint Bonds	15,500.00	....	15,500.00	15,500.00
Louisville Property Co. 4%	81,288.57	....	81,288.57	81,288.57
Total	$ 104,788.57	$1,699,000.00	$1,803,788.57	$1,845,788.57

* September 1, 1939 interest in default on December 31, 1939.

NOTE F—

OTHER INVESTMENTS—NOTES:

	Principal Amount	Book Value (Cost)
United States of America—		
1½% Treasury Notes Series C-1940	$ 760,000.00	$ 760,000.00
1½% Treasury Notes Series A-1941	180,000.00	180,000.00
1% Treasury Notes Series B-1944	670,000.00	670,000.00
Reconstruction Finance Corporation 1% Series S	225,000.00	225,000.00
Sundry individuals and companies	16,254.38	16,254.38
Total	$1,851,254.38	$1,851,254.38

NOTE G—

Includes $212,435 Clinchfield Railroad Company—Lease Account—Operating Profit.

NOTE H—

Includes $2,202,229 Louisville, Henderson & St. Louis Railway Company—Lease Account.

LOUISVILLE AND NASHVI

CONDENSED STATE

FOR THE CALENDAR YEARS 1930 TO 1939, INCLUSIVE, AND

	1930	1931	1932	1933
RAILWAY OPERATING REVENUES:				
Coal and Coke	$ 36,471,534	$ 28,855,487	$ 23,002,676	$ 24,179,886
Other Freight	56,918,939	44,009,556	30,550,742	32,011,040
Passenger	11,637,020	8,014,331	5,176,327	4,530,929
All Other	7,397,070	6,119,818	5,169,099	4,917,361
Total Railway Operating Revenues	$112,424,563	$ 86,999,192	$ 63,898,844	$ 65,639,216
RAILWAY OPERATING EXPENSES:				
Maintenance	$ 44,494,083	$ 32,358,965	$ 22,005,647	$ 21,763,583
Transportation	40,238,410	32,549,431	23,782,560	23,013,826
All Other	7,761,344	7,476,212	5,826,285	5,471,162
Total Railway Operating Expenses	$ 92,493,837	$ 72,384,608	$ 51,614,492	$ 50,248,571
NET RAILWAY OPERATING REVENUES	$ 19,930,726	$ 14,614,584	$ 12,284,352	$ 15,390,645
RAILWAY TAX ACCRUALS	6,233,952	5,485,518	4,508,867	4,010,052
RAILWAY OPERATING INCOME	$ 13,696,774	$ 9,129,066	$ 7,775,485	$ 11,380,593
Hire of Equipment (Net)—Cr.	1,095,521	1,052,536	1,129,988	1,211,089
Joint Facility Rents (Net)—Dr.	785,382	662,278	627,383	733,994
NET RAILWAY OPERATING INCOME	$ 14,006,913	$ 9,519,324	$ 8,278,090	$ 11,857,688
OTHER INCOME:				
Income from Lease of Road and Equipment	$ 218,546	$ 218,546	$ 235,694	$ 247,233
Dividend Income	1,557,751	877,994	101,446	93,244
Separately Operated Properties (Clinchfield R. R. Co.)—Profit (Notes A and D)	401,500	395,013	....	....
Other Income	1,545,062	877,589	880,061	646,543
Total Other Income	$ 3,722,859	$ 2,369,142	$ 1,217,201	$ 987,020
TOTAL INCOME	$ 17,729,772	$ 11,888,466	$ 9,495,291	$ 12,844,708
MISCELLANEOUS DEDUCTIONS FROM INCOME:				
Separately Operated Properties—Loss (Notes B and D)	$	$	$ 800,827	$ 372,061
Other Deductions	95,967	89,758	96,629	85,936
Total Miscellaneous Deductions	$ 95,967	$ 89,758	$ 897,456	$ 457,997
INCOME AVAILABLE FOR FIXED CHARGES	$ 17,633,805	$ 11,798,708	$ 8,597,835	$ 12,386,711
FIXED CHARGES:				
Rent for Leased Roads and Equipment	$ 380,561	$ 308,432	$ 296,223	$ 315,327
Interest on Funded Debt	10,556,913	10,428,303	10,355,864	10,225,996
Interest on Unfunded Debt	90,249	22,027	54,623	49,672
TOTAL FIXED CHARGES	$ 11,027,723	$ 10,758,762	$ 10,706,710	$ 10,590,995
NET INCOME	$ 6,606,082	$ 1,039,946	*$ 2,108,875*	$ 1,795,716
Income Applied to Sinking and Other Reserve Funds	$ 146	$	$	$ ....
Miscellaneous Appropriations of Income	....	65,610	....	....
INCOME BALANCE TRANSFERRED TO PROFIT AND LOSS	$ 6,605,936	$ 974,336	*$ 2,108,875*	$ 1,795,716
MAINTENANCE EXPENSES INCLUDE CHARGES FOR DEPRECIATION (Note C)	$ 9,339,882	$ 4,461,491	$ 4,351,673	$ 4,241,618

Italics denote red figures.

NOTE A—

Consists of L. & N.'s proportion of distributions made by the Clinchfield Railroad Company to the L. & N. and the Coast Line, as Lessees, on account of income and profit and loss credits as follows: in 1930, $401,500 paid in Carolina, Clinchfield and Ohio Railway First and Consolidated Mortgage 5% Bonds, Series B; in 1931, $395,013 paid in non-interest bearing note of the Carolina, Clinchfield and Ohio Railway. The amounts of $265,575 for 1937 and $344,867 for 1939 consist of the L. & N.'s proportion of profit of the Clinchfield Railroad Company for those years.

NOTE B—

Consists of L. & N.'s proportion of losses of the Clinchfield Railroad Company for the years 1932, 1933, 1934, 1936, and 1938. This Company's proportion of loss included in 1935 was $256,244. The L. & N.'s proportion, $513,022, of the debit balance in profit and loss account of Clinchfield Railroad Company on December 31, 1931 was charged to Profit and Loss in 1932.

NOTE C—

Charges to operating expenses for depreciation of equipment to December 31, 1934, were based on the difference between the original cost of equipment (or the inventory value, where acquired in connection with the purchase of lines of railroad) and the estimated salvage value on retirement, spread over the estimated life of the equipment. The average composite percentages of depreciation of various classes of equipment, arrived at by comparing the original cost or inventory value of the

LLE RAILROAD COMPANY

MENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 1939 AND 1940

						Six Months ended June 30, (Note E)	
1934	1935	1936	1937	1938	1939	1939	1940
$ 24,484,102	$ 27,897,406	$ 35,461,309	$ 33,174,892	$ 26,572,909	$ 29,893,539	$ 12,088,208	$ 17,735,388
34,634,675	36,023,248	42,816,963	43,688,982	41,032,698	46,598,470	22,297,975	23,747,037
5,305,781	5,772,116	6,594,986	7,208,546	6,199,037	6,013,271	2,928,619	3,098,630
5,522,592	5,986,549	6,166,893	6,122,573	5,589,916	5,842,976	3,069,811	2,961,578
$ 69,947,150	$ 75,679,319	$ 91,040,151	$ 90,194,993	$ 79,394,560	$ 88,348,256	$ 40,384,613	$ 47,542,633
$ 22,941,818	$ 25,453,831	$ 29,907,451	$ 30,447,009	$ 26,236,704	$ 29,696,004	$ 13,680,680	$ 16,618,412
24,649,911	26,660,846	29,801,625	31,690,500	29,345,559	29,987,122	14,410,836	16,406,660
5,739,059	5,681,193	5,939,685	5,967,238	5,426,536	5,306,409	2,705,793	2,761,209
$ 53,330,788	$ 57,795,870	$ 65,648,761	$ 68,104,747	$ 61,008,799	$ 64,989,535	$ 30,797,309	$ 35,786,281
$ 16,616,362	$ 17,883,449	$ 25,391,390	$ 22,090,246	$ 18,385,761	$ 23,358,721	$ 9,587,304	$ 11,756,352
3,822,906	4,311,108	6,626,087	7,716,721	7,114,734	8,135,700	3,654,722	4,460,835
$ 12,793,456	$ 13,572,341	$ 18,765,303	$ 14,373,525	$ 11,271,027	$ 15,223,021	$ 5,932,582	$ 7,295,517
1,199,023	1,428,206	1,834,487	2,143,290	1,226,467	1,536,268	279,985	915,545
1,025,182	1,038,588	1,342,426	965,694	874,523	910,629	442,736	433,381
$ 12,967,297	$ 13,961,959	$ 19,257,364	$ 15,551,121	$ 11,622,971	$ 15,848,660	$ 5,769,831	$ 7,777,681
$ 223,759	$ 227,668	$ 227,671	$ 227,194	$ 225,827	$ 225,432	$ 113,629	$ 113,692
52,690	52,677	53,859	67,931	52,229	80,522	18,714	264,840
....	....	....	265,575	....	344,867	....	....
533,585	544,778	633,514	660,956	599,331	463,310	256,634	172,770
$ 810,034	$ 825,123	$ 915,044	$ 1,221,656	$ 877,387	$ 1,114,131	$ 388,977	$ 551,302
$ 13,777,331	$ 14,787,082	$ 20,172,408	$ 16,772,777	$ 12,500,358	$ 16,962,791	$ 6,158,808	$ 8,328,983
$ 269,838	$ 256,619	$ 26,360	$	$ 213,168	$	$	$ ....
90,084	86,436	93,813	95,855	97,537	95,656	46,490	65,324
$ 359,922	$ 343,055	$ 120,173	$ 95,855	$ 310,705	$ 95,656	$ 46,490	$ 65,324
$ 13,417,409	$ 14,444,027	$ 20,052,235	$ 16,676,922	$ 12,189,653	$ 16,867,135	$ 6,112,318	$ 8,263,659
$ 312,060	$ 307,134	$ 325,684	$ 322,661	$ 299,821	$ 331,546	$ 167,725	$ 171,198
10,096,850	9,967,533	10,059,162	9,216,026	9,148,432	9,112,790	4,558,004	4,506,215
41,114	40,417	38,917	37,889	35,384	28,568	14,038	13,666
$ 10,450,024	$ 10,315,084	$ 10,423,763	$ 9,576,576	$ 9,483,637	$ 9,472,904	$ 4,739,767	$ 4,691,079
$ 2,967,385	$ 4,128,943	$ 9,628,472	$ 7,100,346	$ 2,706,016	$ 7,394,231	$ 1,372,551	$ 3,572,580
$	$	$	$	$	$	$	$ ....
13,878	18,539	30,873	....	....	....	....	....
$ 2,953,507	$ 4,110,404	$ 9,597,599	$ 7,100,346	$ 2,706,016	$ 7,394,231	$ 1,372,551	$ 3,572,580
$ 4,116,587	$ 4,239,469	$ 4,179,924	$ 4,200,638	$ 4,330,343	$ 4,334,759	$ 2,166,136	$ 2,172,520

several classes of equipment and the amount of depreciation accruals thereon, for the year 1934 were as follows: Steam locomotives, 2.38%; freight train cars, 3.38%; passenger train cars (including dining cars), 2.11%; and work equipment, 5.04%. From January 1, 1935, depreciation was accrued by the L. & N. on its equipment at component percentage rates approved by the Interstate Commerce Commission. For 1939, the annual composite rates, based upon these component rates were: Steam locomotives, 2.82%; freight train cars, 3.05%; passenger train cars, 2.63%; work equipment, 3.89%.

Prior to January 1, 1931, charges were also made to operating expenses for depreciation of Road but effective January 1, 1931, such charges were discontinued and renewals were charged to operating expenses.

NOTE D—

The operating profits or losses of Georgia Railroad are not included in the above statement.

NOTE E—

The figures shown above for the six months ended June 30, 1939 and 1940 are unaudited. They were prepared by the Comptroller of the L. & N. and are subject to year-end adjustments. Such figures do not include the amount of the L. & N.'s proportion of the profit from operations of the Clinchfield Railroad Company, after deducting the L. &. N.'s proportion of rent paid under the Lease described on page 4. The L. & N.'s proportion of such profit was $40,656 for the six months ended June 30, 1939 and $400,585 for the six months ended June 30, 1940.

LOUISVILLE AND NASHVILLE

STATEMENT OF PROFIT AND LOSS FOR THE

CREDITS	1930	1931	1932
Credit Balance at beginning of Year	$ 94,934,604	$91,939,694	$87,622,131
Credit Balance transferred from Income	6,605,936	974,336	Dr. 2,108,875
Donations—Estimated value of Land and Material donated for Transportation Purposes	161,088	155,473	69,173
Credits from Retired Road and Equipment	9,792	6,025	1,856
Unrefundable Overcharges (A)	34,662	34,964	30,903
Miscellaneous Credits	145,327	533,050(B)	52,914
Delayed Income Credits:			
Cancellation of taxes accrued March to December 1936 under Railroad Tax Act of 1935, repealed 1937	....	....	....
TOTAL	$101,891,409	$93,643,542	$85,668,102
DEBITS			
Dividend Appropriations of Surplus	$ 8,190,000	$ 5,265,000	$ ....
Surplus appropriated for Investment in Physical Property	161,088	155,473	69,173
Debt Discount extinguished through Surplus (C)	1,529,147	440,737	8,826
Debits from Retired Road and Equipment	45,211	89,313	460,755
Miscellaneous Debits	26,269	70,888	105,356
Surplus Applied to Sinking and Other Reserve Funds	....	....	....
Miscellaneous Appropriations of Surplus	....	....	34,159
Delayed Income Debits:			
This Company's one-half proportion of $1,026,044 Debit Balance in Profit and Loss Account of Clinchfield Railroad Company on December 31, 1931	....	....	513,022
Loss incident to retirement of obsolete and worn out equipment	....	....	....
	$ 9,951,715	$ 6,021,411	$ 1,191,291
CREDIT BALANCE AT END OF YEAR	91,939,694	87,622,131	84,476,811
TOTAL	$101,891,409	$93,643,542	$85,668,102

NOTE A—

Effective January 1, 1936, unrefundable revenue overcharges are included in the revenue accounts.

NOTE B—

Includes in 1931 credit of $374,173, difference between value of land and other property at Aladocks, Ala., turned over to L. & N. by the Alabama State Docks Commission, plus cost of relocating and reconstructing the L. &. N.'s main line from Chicasaw Bogue to about Congress and Commerce Streets, Mobile, Ala., borne by the Commission, and the ledger value of land and other property turned over to the Commission in exchange for the land, and other property received from it in accordance with contract dated August 1, 1925. On instructions of the Interstate Commerce Commission, $275,639 of the 1931 credit referred to was reversed in 1935. This account, in 1935, includes credit of $247,674 for adjustment of depreciation on Louisville, Henderson & St. Louis Railway Company's equipment accrued prior to date of purchase, January 1, 1934. This item of $247,674, was reversed in 1937 by direction of the Interstate Commerce Commission.

Exhibit L

RAILROAD COMPANY

CALENDAR YEARS 1930 TO 1939, INCLUSIVE

1933	1934	1935	1936	1937	1938	1939
$84,476,811	$84,512,628	$80,679,817	$80,571,530	$77,729,143	$77,825,253	$75,191,931
1,795,716	2,953,507	4,110,404	9,597,599	7,100,346	2,706,016	7,394,231
47,117	57,492	59,724	14,479	13,246	78,675	5,539
3,462	101	8,911	41,437	22,501	19,405	15,138
26,096	24,331	18,078	....	....	....	....
199,453	110,585	Dr. 978(B)	92,730	Dr. 210,676(B)	66,413	362,975
....	....	....	....	1,220,928	....	....
$86,548,655	$87,658,644	$84,875,956	$90,317,775	$85,875,488	$80,695,762	$82,969,814
$	$ 3,510,000	$ 2,925,000	$ 7,020,000	$ 7,020,000	$ 4,680,000	$ 5,850,000
47,117	57,492	59,724	14,479	13,246	78,675	5,539
10	....	....	1,321,352	10,122	82,985	....
1,916,459	2,115,128	877,285	3,032,484	978,533	635,132	624,790
72,441	239,412(D)	447,715(E)	1,200,172(F)	27,591	25,458	67,149
....	....	....	....	743	1,581	741
....	....	....	....	....	....	....
....	....	....	....	....	....	....
....	1,056,795	Cr. 5,298	145	....	....	....
$ 2,036,027	$ 6,978,827	$ 4,304,426	$12,588,632	$ 8,050,235	$ 5,503,831	$ 6,548,219
84,512,628	80,679,817	80,571,530	77,729,143	77,825,253	75,191,931	76,421,595
$86,548,655	$87,658,644	$84,875,956	$90,317,775	$85,875,488	$80,695,762	$82,969,814

NOTE C—

It has been the policy of the L. & N. to charge debt discount and expense directly to Profit and Loss at the time the debt was incurred, instead of charging the same to income over the life of the indebtedness.

NOTE D—

Includes loss on investment in stock and bonds of the Elberton & Eastern Railroad Company, $203,471.

NOTE E—

Includes loss incident to sale of obsolete and scrap material, $398,650.

NOTE F—

Includes premium on bonds called for redemption, $799,920; preliminary surveys on abandoned projects, $230,164; and loss incident to the sale of relay and scrap rail, $109,637.

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